

JPRS-CAR-89-108  
3 NOVEMBER 1989



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

**DISTRIBUTION STATEMENT A**  
Approved for public release;  
Distribution Unlimited

# **China**

19980715 098

**DTIC QUALITY INSPECTED 1**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

# China

JPRS-CAR-89-108

## CONTENTS

3 NOVEMBER 1989

### INTERNATIONAL

#### GENERAL

- Foreign Media Reacts to New National Leadership [GUOJI ZHANWANG No 14] ..... 1

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Problems in Shareholding Enterprises [JINGJI GUANLI No 8] ..... 4

#### PROVINCIAL

- Qinghai Government Work Report [QINGHAI RIBAO 5 May] ..... 7  
Vice Governor Outlines Economic Problems, Tasks [NANFANG RIBAO 4 Oct] ..... 26  
Retail Sales Falling, Prices Dropping in Tianjin [XINHUA] ..... 28

#### FINANCE, BANKING

- Types, Effects of Fund-Raising in Society [JINGJI GUANLI No 7] ..... 28  
Commentator Discusses Problems in Clearing up Debts [JINRONG SHIBAO 12 Sep] ..... 31

#### INDUSTRY

- Hunan's Heavy Industry 'Develops Quickly' [RENMIN RIBAO 3 Sep] ..... 32

#### FOREIGN TRADE, INVESTMENT

- Western 'Passage' for Opening Up to the Outside World  
[Hong Kong LIAOWANG OVERSEAS EDITION No 31] ..... 33  
Retention of Rural Production Responsibility System Advocated [JINGJI RIBAO 16 Sep] ..... 36  
Color TV Production Less Dependent on Imports [XINHUA] ..... 37  
Call for Adjustment of Foreign Investment Guidelines [CEI Database] ..... 38  
Foreign Investment, Trade Up in Sichan's Chongqing City [XINHUA] ..... 38

#### ECONOMIC ZONES

- Yantai Economic Zone 'Improves' Investment Environment [XINHUA] ..... 38

#### TRANSPORTATION

- New Chengdu-Fuzhou Air Route Opens [XINHUA] ..... 39

#### PRC MEDIA ON FOREIGN ECONOMIES

- Lessons from Yugoslavian, Hungarian Economic Reform [JINGJI GUANLI No 7] ..... 39

#### AGRICULTURE

- Easing Tension in the Grain Situation  
[DANGDAI ZHONGGUO DE LIANGSHI GONGZUO 1 Feb 88] ..... 42  
Grain Payment Delinquency Analyzed [JINGJI RIBAO 15 Sep] ..... 75  
Increased Barley Output Needed [JINGJI CANKAO 28 Sep] ..... 76

Henan Grain Wholesale Center To Be Set Up [XINHUA] .....	77
Henan Develops Device To Produce Bovine Serum [XINHUA] .....	77
Hunan Procurement Funds Increase [HUNAN RIBAO 3 Sep] .....	77
Hunan Grain Procurement [HUNAN RIBAO 23 Sep] .....	77
Shandong Cotton Procurement [JINGJI RIBAO 16 Oct] .....	77
Qinghai Land Development [QINGHAI RIBAO 13 Sep] .....	77
Qinghai Grain, Oil Crop Procurement [QINGHAI RIBAO 23 Sep] .....	77
High-Yield Cotton Techniques Applied in Xinjiang [XINHUA] .....	78

## REGIONAL

### NORTH REGION

Shanxi Issues Provisional Regulations on Public Order [SHANXI RIBAO 16 Jul] .....	79
Shanxi People's Congress Acts To Preserve Social Stability [SHANXI RIBAO 20 Jul] .....	79

### TAIWAN

KMT Poll Reveals Citizens' Concerns [TZULI WANPAO 16 Sep] .....	81
Can Taiwan Outlaw Underground Investment Companies? [Hong Kong CHING-CHI TAO-PAO No 29] .....	81

### HONG KONG, MACAO

Meddling in Hong Kong Affairs Criticized [CHENG MING No 142] .....	83
--	----

## GENERAL

### Foreign Media Reacts to New National Leadership

40050704a Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 14, 23 Jul 89 pp 3-5

[Article compiled by Zhao Nianyu 6392 1819 3254: "A Giant Ship That Sets Sail in the Stormy Sea"—Foreign Media's Reaction to the 4th Plenary Session of the 13th CPC Central Committee"]

[Text] A Third-Generation Leading Group That Is "More Reform-Oriented Than Conservative"

The new leading group selected by the 4th Plenary Session of the 13th CPC Central Committee has attracted world attention. News agencies around the world have quickly reported, introduced, and commented on it. Without mincing words, Singapore's LIAN HE ZAO BAO said, "The selection of Jiang Zemin as the party's general secretary is entirely unexpected. The decision naturally has to do with the CPC's basic policies." Spain's AGENCIA EFE said, "These six men share some similar characteristics. They are steadfast on ideological issues, and they all have experience in technical, economic, and organizational areas." Thus, foreign media in general feel that "China's new leading organ is made up of 'young' people who subscribe to the government-by-specialists theory and who are pragmatists."

As head of the new leading group, Jiang Zemin, of course, is the center of attention of the foreign media. Jiang was mayor of Shanghai and was also secretary of the municipal party committee. "For a long time, he worked on promoting economic development and growth. At the start of the student movement, he dismissed Qin Benli [2953 2069 4539], editor in chief of SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD]. He was the first to proclaim his support for the central government. He was very efficient in quelling the protests in Shanghai." "His stand on the 'four upholds' is firm; his attitude is positive, and he measures up to the standards of the two basic points."

The foreign press not only noted that in this and the previous student movement in late 1986 and early 1987 Jiang Zemin "followed strictly Deng Xiaoping's line"; they also noted that Jiang is "one of the most capable and experienced officials in the Poliburo. He is well-educated and is a political figure from the metropolis who has been around." In the United States, the COMMERCE DAILY pointed out in particular that "leaders in U.S. business circles speak highly of the new head of the CPC." That newspaper cited the president and general manager of Grace Corporation of China that Jiang Zemin is "an astute man." He also said that "he expects that Mr Jiang will forge ahead and strive to attract more foreign enterprises. Jiang is easy to get along with; he is kind and friendly; he is smart and has gumption." Grace Corporation of China owns a food

and beverage-can sealant production plant in Shanghai. He has met Jiang Zemin at least three times.

Foxboro Corporation produces assembly-processed products in Shanghai. Its vice president, Gerald Gleason, said that Jiang is "a very efficient corporate leader and a warmhearted person." Gleason also said that General Secretary Jiang Zemin is "a regular guy." He said that on three occasions when they met, they talked about their grandsons and granddaughters. "One occasion was when Jiang visited the headquarters of Foxboro Corporation in Foxboro, Massachusetts."

The latest issue of ASIAN WEEKLY noted that "the new leader of the world's largest communist party thinks of himself as a statesman. He says he plays the piano and flute; he likes literature and likes to paint. When he was mayor of Shanghai, he asked that international financial information be delivered to him daily."

The foreign press also gave high marks to Li Ruihuan [2621 3843 3883], who is "only 54 years old" and is the "youngest member of the Standing Committee of the Poliburo." They said, "When Li Ruihuan was vice mayor of Tianjin Municipality, he got rid of the mess left by the Tangshan earthquake within 6 months and moved 100,000 residents into their new homes. Later he also brought fresh water to Tianjin so that the residents no longer have to taste salt in their water. His political achievements are praised by all. On major political issues, he always stands by the central authorities."

On the whole, the foreign media's assessments of the new leading group have been fairly impartial and cautious. In general, they are hopeful that, as the head of China's leading group, Jiang Zemin can "change the CPC's image and help restore the confidence of foreign businessmen." They also hope that "China will continue to implement its policy of reform and opening up." They believe that "the 4.77 million member CPC will be 'energetic' in leading the country's broad economic and social changes."

### Neither the Principles on Which the Nation Is Founded Nor the Ways by Which the Nation Is Strengthened Are Dispensable

Some foreign media have noted that "the CPC must resolutely oppose bourgeois liberalism and focus more on the development of party construction, culture, and morality and on political ideologies." The official newspaper of Czechoslovakia's Communist Party, RUDE PRAVO, also said, "Neglecting this principle may jeopardize the existence of the party and threaten the country and the political and economic reforms already under way."

In the comments dispatched from Beijing, a NIHON KEIZAI SHIMBUN reporter agreed with what Deng Xiaoping had said in the past. He cited two passages from Deng Xiaoping's conversation with Carter and Bush, which said, "People often associate democracy with the United States, thinking that the U.S. system is



the most ideal democratic system. But we cannot copy you. If we copy your tripartite balance of power of the three branches of government and your system of general elections, China will continue to steep in turmoil." "China has a large population; everybody has his own opinion. If China holds a election for a billion people, it will bring as much chaos as the Cultural Revolution." This reporter said, "Anyone who has lived in China can understand these words to some extent. China has a population of 1.1 billion. The sense of national consciousness is weak, and a quarter of the people are illiterate. The concept of taxpayer does not exist in China. Few people ever pay personal income tax." "To hold a Western-style election requires some degree of social awareness. Regrettably, China is still not ready today. What would happen if China overlooks this discrepancy and practices an American-style democracy now? Even Mr Deng is afraid to think. China's basic social structure is completely different from that of the Western nations. Even those students who demand 'democracy' have no idea of what system they want."

New York's ZHONG BAO hit the nail in the head when it said, "Fortunately, the Chinese leadership has not gone back on this important issue. Deng Xiaoping said, 'We shall hold steadfast to our original basic lines and general and specific policies.'"

Economics is the foundation of politics. All nations are focusing attention on the future course of China's economic reform and opening up to the outside world. The foreign press pointed out that "if the mainland turns the clock back, if the economy rigidifies, and if the authorities keep on rejecting the market's regulatory role, then 'turning the economy over and over again' will simply be impossible. And if China once again closes its opened door, the Chinese mainland will not only be isolated from the international community but will be completely cut off from the outside world, and the argument of 'letting foreign things serve China' will be in vain."

If we look at the world media's reaction, whether they are for or against China, their views toward China's reform and opening up are unanimous. They all feel that "promulgation by the 3d Plenary Session of the 11th Party Central Committee's of the general and specific policies of reform and opening up was one of the most important decisions in the history of that party. It is not an exaggeration to use such metaphors as 'turning point' and 'watershed' to describe it." True, during the decade of reform and opening up, there have been all sorts of problems, "but this line is pointing at the right direction. No Chinese in the mainland or abroad, not even those who oppose the CPC, can deny the role of the mainland's reform and opening up in bringing progress to China."

The CHRISTIAN SCIENCE MONITOR in the United States reported that "Beijing is seeking to reassure the Asian countries that life will go on as before. China does not plan to change its policies." Singapore's LIAN HE ZAO BAO also noted that China "will maintain proper relations with the Asian and Western countries and will

continue to treat modernization as its priority." Foreign media suggest that "China's stability is vital to Asia and the world. We should have a long-term view toward China's situation."

The foreign press has also noted that China's new leader certainly will not abandon reform and opening up, which are the ways to strengthen the country. New York's ZHONG BAO commented that "maintaining the policy of reform and opening up not only sets the people's minds at ease but also plays a role in stabilizing the CPC's existing power structure." Another commentary in that newspaper said, "This great nation will not stop moving forward because of a temporary crisis. We believe that after the historic convention of the 4th Plenary Session of the 13th CPC Central Committee, and guided by its historic decisions, this pragmatic government which has gone through suffering and misery before will certainly face the turmoil and perils before it with even greater confidence and willpower and will achieve even greater success as it continues to uphold the policy of reform and opening up and builds a new society with Chinese characteristics."

#### **It Is Too Soon To "Celebrate"; It Is More Important To "Do Something Solid"**

Foreign media pointed out sharply that "Jiang Zemin has become the general secretary of the world's largest communist party. He has no reason for celebration. He must deal with the people's dissatisfaction. He must solve the economic problems." "Whether he can make a breakthrough, whether he can accomplish a few things to benefit the people, whether he can build up his position with real accomplishments, and whether he can resolve the many conflicts and difficulties before him are still question marks in the minds of the people."

In all fairness, in the aftermath, many things need to be reexamined. A foreign press agency report said, "In the last decade, the CPC has implemented a policy of reform and opening up, and the country's economy has improved to some extent. But some high-ranking officials and bureaucrats have taken advantage of their own, or their fathers' or brothers', power to engage in 'official profiteering'; they 'produce clouds with one turn of the hand and rain with another'—resort to trickery and wreak havoc in the market and reap a huge profit and line their own pockets. They eat, drink, be merry, and squander money. The masses of people never benefitted from the reform and opening up as intended, and consequently, complaints are heard everywhere, and society is seething with popular discontent."

Reports from foreign press agencies noted that the new general secretary, Jiang Zemin, "discussed these situations with democratic personages from nonparty organizations and asked them to help the party and the government to 'rid society of the corruption.'" Meanwhile, they noted that at a symposium commemorating "July 1" in Beijing, Jiang Zemin said, "Leading cadres of

the party at all levels must take the lead to accomplish a few things that inspire the party and the people."

According to a report by Spain's AGENCIA EFE, "In the last few days, China's media have begun publicizing incidents of corruption, especially corruption among CPC members." China "has reported on efforts to fight corruption in six provinces." Guangdong Province's procuratorate disclosed that "in the first 5 months of this year, 238 'major' corruption, graft, fraud, and bribery cases have been uncovered. The culprits are 'mostly ranking CPC members.'"

But this is only the beginning. Foreign media "hope that Jiang Zemin turns out to be the valiant hero who cracks down on 'official profiteering' and stems corruption."

Furthermore, reports from foreign press agencies also noted that the new leading group is facing a "grim economic situation." A foreign newspaper said, "By the end of 1988, it is estimated that China's foreign debts reached \$42.4 billion, and by the early 1990's, China will have to spend \$9 to \$10 billion on principal and interest each year. This is equivalent to more than one-half of China's foreign exchange reserve." China must do its utmost to deal with the situation.

For this reason, people generally agree that it is too soon to "celebrate." The priority now is to "do something solid." Just as a commentary in Japan's YOMIURI SHIMBUN said, China's new leading organ is a "giant ship that sets sail in the stormy sea."

## NATIONAL AFFAIRS, POLICY

### Problems in Shareholding Enterprises

HK0310113389 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 8, 1989 pp 13-15

[Article by Li Shihui 2621 1102 6540: "Ways To Deal With Problems in Rural Shareholding Cooperative Enterprises"]

[Text] Over recent years, with the deepening of the reform and the development of the commodity economy, a large number of township and town shareholding cooperative enterprises has been established in the rural areas of Wenzhou. These enterprises not only have special condensation capability [ningju li 0413 5112 0500] and strong vitality, but also have the function of enabling synchronous development of both the commodity economy and the cooperative economy. They have currently become the mainbody of Wenzhou's rural economy.

The large number of rural shareholding cooperative enterprises in Wenzhou did not emerge under a situation where the conditions and environment required by a shareholding economy are ready and mature, and there is no existing standard for them to follow. It is inevitable that they will carry spontaneity. Therefore, how to standardize shareholding cooperative enterprises step by step and how to enable them to develop in a healthy and coordinated manner has become a new issue that we should study and solve. Recently, we have preliminarily investigated and analyzed the rural shareholding cooperative enterprises in Ruian City, and tried to find out a solution to the issues mentioned above.

### The Situation of Rapid Development

Ruian is a city at the county level of Wenzhou. It has a population of one million, and is economically developed. According to the preliminarily statistics of the departments concerned, at present, there are 3,700 township and township enterprises (not including family industry), which are quite well-established, in the whole city; and 70,000 people are being engaged by these enterprises. In 1988, the output value of these enterprises was 430 million; they have achieved a profit of 24.17 million yuan, have turned over to the state an amount of 26.05 million yuan of tax, and had a amount of 78.38 million yuan of fixed asset investment. Among these enterprises, 3,480 are shareholding cooperative enterprises, amounting to 94.5 percent of the total number of township and town enterprises there. These shareholding cooperative enterprises have employed a number of 63,300 people, amounting to 91.55 percent of the total number of people employed by the 3,700 township and town enterprises. Moreover, they have achieved an output value of 395 million yuan, an amount of profit of 22.36 million yuan, and an amount of 23.57 million yuan of tax, and had an amount of 70.59 million yuan of fixed asset investment. These amounted

to 91.55 percent, 92.5 percent, 90.5 percent and 90 percent of that achieved by the total number of township and town enterprises there. Even when the total output value achieved by the family industrial enterprises in the whole city is taken into account, the total output value achieved by the shareholding cooperative enterprises there have contributed to 66 percent of that achieved by all the township and town enterprises in the whole city, their profit amounted to 60 percent of the total, the amount of tax achieved by them amounted to 80 percent of the total, and their investment amounted to 74 percent of the total.

Since the first half of this year, township and towns enterprises have been affecting by the problems of raw material price increase, shortage of funds, shortage of energy supply, and the problem of wage cost increase. However, under these circumstances, the output value achieved by the shareholding cooperative enterprises was 30 percent more than that achieved in the same period of last year, and the trend of their development is still a very vigorous one.

The investigation has illustrated that the development of the rural shareholding cooperative enterprises in Wenzhou is absolutely not a result of the determination of officials, is not the subjective will of any individuals, and is also not a result of manmade combination. It is a natural result of the development of productive forces, and is a great creation in people's practice of production. This development has input new energy into the development of Wenzhou's rural economy, and has opened a path leading to success. The viewpoint considering that the rural areas in Wenzhou have been dominated by private individual economy is a prejudice or is a misunderstanding of the situation.

### New Problems and New Ways To Solve the Problems

It is impossible that every new thing will be perfect things. Due to the fact that the history of shareholding enterprises is very short and these enterprises do not have any past experience to follow, it is inevitable that some problems will arise in the course of their development. In dealing with this issue, people are continuously searching for solutions in the practice of production. First, the course of development of rural shareholding cooperative enterprises has been a fluctuated one, and the development is not stable. According to the investigations on Dongshan, Dongtian, and other townships, there were 113 shareholding cooperative enterprises in the Dongshan township and the Dongtian township in 1986; in 1987 there were 203 shareholding cooperative enterprises; and in the first half of 1988, the number of these enterprises decreased to 160. In 1987, 48 shareholding cooperative cloth factories were set up at the Dongshan township. However, at present there are only five. Apart from the reason of inaccurate information, insufficient feasibility study, and market changes, the main reasons leading to such a decline in the number of shareholding cooperative enterprises are that there are no regulations to govern the selling and buying of shares,

and the development of the share market has not been able to catch up with the development of the real situation. A newly established shareholding cooperative enterprise will involve great risk, and it is difficult for the founders of such an enterprise to raise funds by issuing shares. However, when the development of a shareholding cooperative enterprise is good, and when it can make profit, people will become very eager to purchase more shares of this enterprise. However, once the enterprise has encountered difficulties, people will try to sell as quickly as possible their shares. Many shareholding enterprises have dissolved because of disputes arisen from these phenomena. Three measures have been taken to deal with this situation. First is administrative interference. Local governments have promulgated regulations to unify and standardize the time limit for buying and selling the shares of an enterprise. The second measure is that the general meeting of the shareholders of enterprises has decided that under no circumstance can enterprises issue more shares and buy back shares from shareholders in accordance with the profit and loss situation of the enterprises. The third measure is to link small shareholders to large shareholders. Under this measure, large shareholders cannot be changed while small shareholders can be changed; an enterprise has to classify who are large shareholders and who are small shareholders; and large shareholders have to take care of the changes in small shareholders.

Practice proved that this method of self-government by the masses has played a positive role in enhancing the stability of shareholding enterprises and in eliminating the speculative attitude of some shareholders. However, the way of how to manifest the principle whereby people can buy shares on their own initiatives and can have the freedom to sell their shares has to be further studied.

Second, In the aspect of the integration of rural shareholding cooperative enterprises, there are large number of enterprises which are loosely organized and are small in operation scale, and the number of enterprises which are large in operation scale and are tightly organized is small.

At present, the form of organization of these enterprises can be divided into three types. The first type is whole-member shareholding enterprises. That means every member of an enterprise will subscribe the shares of the enterprise, while the number of shares held by each member is different; and every member will have both the status of being a staff member and the status of being a shareholder, while not every one is director of the enterprise. The second type is partial-shareholding enterprise. That means an enterprise will be found by several shareholders, and it will employ staff and workers. The property and the accumulation of the enterprise are owned by the shareholders, and its staff and workers will get their wages according to the number of tasks done by them, and at the end of a year some staff and workers will get labor dividends or bonus. The third type is multi-sourced shareholding enterprise, or called mixed shareholding enterprise. That means an enterprise is

invested by the investment of individual, collective, and whole-people units, and the investment of different areas, systems, and levels.

In practice, local governments have not spoiled things by over enthusiasm and have not set up the shareholding cooperative enterprises in a man-made manner, but have positively guided them and let them develop in a natural way. On one hand, enterprises have been guided to achieve an operation scale, a high quality standard, and a high level in accordance with the requirements of the development of productive forces, the principle of voluntary and mutual benefit, and their conscious request for a new optimal combination of the productive forces. On another hand, with the deepening of the urban economic structural reform, local governments have actively carried out work to develop lateral integration, and have tried their best to encourage whole-people and collective enterprises to buy shares. At the same time, they have handled well the work on setting up typical models and establishing examples, have summarized experience, and have promoted and guided enterprises to develop toward a higher level.

Third, the situation of the allocation of benefits among various parties within a shareholding cooperative enterprise is rather confusing. This problem is mainly reflected in three aspects.

1. The difference between the highest and the lowest rate of share interest is too great. Consequently, due to the fact that the amount of investment of different shareholders is different, the amount of the benefits they will get is not equal. Among the 53 shareholding cooperative enterprises in four townships and towns such as Tangxia and Longshan, 11 of them, amounting to 20 percent of the total, do not give interest to the cash payment for shares; 13 of them, amounting to 25 percent of the total, calculate interest in accordance with the interest rate offered by local credits cooperatives (18 percent); and 29 of them, amounting to 55 percent, calculate interest in accordance with the interest rate of loans lent among people (25 to 35 percent). Within an enterprise, the investment amount of a shareholder can be as high as 35,000 yuan, and the smallest amount of investment can be as low as 2,000 yuan; the difference is 160 percent. Regarding the method of paying interest, some enterprises will pay monthly interest, some will pay biannual interest, and some will pay annual interest. These differences have directly affected the benefits of shareholders.

2. There are various dividend proportions and various methods for distributing dividends; and these have involved many problems. There is a discounted dividend method. Take the Linxiang Electric Machinery Factory as an example. It distributed 25 percent of its after-tax profit as dividends, and retained the balance 75 percent of the after-tax profit as accumulation, and used the accumulation to expand re-production. This 75 percent of the after-tax profit is registered under the name of its shareholders and interest will be calculated, and this money cannot be withdrawn and cannot be used in

distributing dividends. Another method is that all the after-tax profit of an enterprise will be distributed to all of its shareholders. However, there will only be book-transfer of this after-tax profit and actually no money will be distributed. Some enterprises will transfer their after-tax profit to the account of their shareholders, and will give their shareholders loan interest. However, they will not take this after-taxed profit, which has been transferred to the shareholders' account, as the increased amount of shares of the shareholders, and will not distribute such profit as dividends. However, some enterprises will distribute their after-tax profit to their shareholders, and take this as the increased amount of shares of their shareholders, and the increased amount of shares is entitled to receive interest and dividends. Another method is that all the after-tax profit of an enterprise will first be distributed to all of its shareholders, and the shareholders then have to reinvest such profit into the enterprise. That means, the after-tax profit achieved by an enterprise in a year will first be distributed to all of its shareholders in the end of the year, and the investment funds for the following year will be raised among shareholders in accordance with the requirement of production. Another method is that the after-tax profit of an enterprise will not be distributed to its shareholders as dividends, but will be distributed to its shareholders as repayment for their shares. The enterprise will therefore gradually become a collective enterprise. However, there is no definite stipulation to determine to whom the property right should belong.

3. The investments of the shareholders of an enterprise will be different in nature as some investments involve labor work while some do not. Therefore, the wage level will also affect the amount of dividends, and consequently contradictions will often emerge. Local governments have implemented three measures to deal with this problem. The first measure is to positively guide the practice of separating ownership from the power of operation, and to implement the contracted responsibility system of fixed pledge quota. Take the Xinfeng Shoes Factory at Dongtian township as an example. Twenty shares (40 people) have invested 140,000 yuan in the factory, and one of the shareholders has made contract with the factory. It was stipulated in the contract that the factory has to achieve an amount of 105,000 yuan of after-tax net profit. This shareholder has organized a team of 13 people (including shareholders of the factory and non-shareholders), and each member of the team has contributed 4,000 yuan as pledge funds—A total of 52,000 yuan was raised as pledge funds. It was also stipulated that monthly interest and dividends should be paid to the shareholders of the factory according to the rate of 400 yuan per share (7,000 yuan). He can retain all the monthly profit achieved after he has distributed 400 yuan per share to all the 20 yuan shares. If the profit achieved in a month is not sufficient to pay for the monthly interest and dividends, he has to take out money from the pledge to pay for the interest and dividends. The second measure is to allocate fixed

amount of dividends to investment input by shareholders who are not members of the factory, and these shareholders do not have to bear risk; while dividends will be distributed in a standardized way to shareholders who are members of the factory, and they have to bear risk. The third measure is to give fixed amount of wages, and subsidies to staff and workers of an enterprise, and all members of the enterprise have to bear risk. For instance, the Xiangdi Rubber Shoes Factory has stipulated that every share of investment will be treated equally. For each shareholder, whether he has contributed his labor to the factory or has taken part in the management of the factory or not, he is entitled to get 100 yuan of "risk wage" per each share he holds in a month. For shareholders who have worked in the factory will, as the same as other staff and workers, get their wages in accordance with the number of pieces of work they have done. For all management personnel, job subsidies (30 to 50 yuan per month) will be granted to them, and dividends will be distributed to them in a standardized manner at the end of every year.

4. In some cases, the owner of the property right of shareholding cooperative enterprises is clearly defined, while in some cases, it is not. When investment is in monetary form, the property right will belong to the one who has invested the money. In this case, the ownership of the property right is clearly defined. However, many disputes will arise when the investment is transformed into fixed assets, in particular when factory buildings have been built by using the investment. The disputes will become more acute when an enterprise stops its operation, or when it is closed down or when it is sold to others. At this time, the government of the township where the enterprise is situated will want to get back the factory buildings, because the land allocated by the local government for building the factory buildings is under the collective ownership of the enterprise, and the enterprise only has the right to use the land but does not have the ownership over the land. Therefore, the land has to be returned to the township government when the enterprise stops using it. However, the shareholders of the enterprise will regard this as unpaid transfer of resources, and will demand selling the land.

The methods to deal with this problem adopted by various areas are: 1) On the basis of the principle that the property right will belong to one who has invested, the land where factory buildings are built can be sold. However, this land can only be used to build factory buildings, and cannot be used to build houses. 2) A price for the land will be determined and the local government of the area where the land is situated can allocate the land to other enterprises that need factory buildings, and the money collected will be given to the original enterprise. 3) Industrial areas will be allocated in accordance with village and town planning, and village and town governments will allocate land and build factory buildings in a unified manner; and enterprise that need factory buildings have to contribute money to rent the buildings, and the ownership of the buildings will belong to village and town collectives.

Practice proved that the second and the third method are practical. In particular the third method merits promoting.

5. The employer-employee relation in shareholding cooperative enterprises is under a tense situation, labor insurance and labor welfare are insufficient, the mobility of personnel is high, and the degree of stability is low. It was found from the investigations that employers at present want their staff and workers to work on a long-term basis in their factories. However, they are afraid that long-term employment will bring them troubles. Staff and workers have the thinking that they will not work on a long-term basis, and they will join a factory which can give them higher wages. Therefore, enterprises are not concerned about the technical training, and intellectual investment of their staff and workers and seldom think about upgrading the quality of staff and workers; and staff and workers in general do not have high expectation on this aspect.

To deal with this problem, various areas have suggested the government departments concerned to formulate a set of standardized regulations in accordance with the characteristics of shareholding cooperative enterprises, and to grant to staff and workers labor insurance and welfare treatment in accordance with their length of service to enhance enterprises' attraction to staff and workers, and to enable enterprises to raise their quality and to develop in a stable manner.

Various areas have also requested the departments concerned to further probe and study the legal status, the organization structure, the registered industrial and commercial nature, and the administrative regulation and control functions of shareholding cooperative enterprises, the taxation and credit policy on these enterprises, and the relationship between them and the departments in charge of them so as to give them regulations and laws to follow, and to enable them to develop in a healthy way.

## PROVINCIAL

### Qinghai Government Work Report

40060647 QINGHAI RIBAO in Chinese  
5 May 89 pp 1-4

[Article by Song Ruixiang 1345 3843 4382: "Government Work Report"—Second Session of the Seventh Qinghai Provincial People's Congress, 25 April 1989]

[Text] Delegates:

In my capacity as a representative of the provincial people's government, I now submit the work report to the congress for its examination and approval.

During the past year, under leadership of the CPC Central Committee and the State Council, under the leadership of the Qinghai Provincial CPC Committee, and with guidance and supervision from the Standing

Committee of the Qinghai Provincial People's Congress, all levels of government in the province have assiduously carried out a policy of "improving the economic environment, restructuring the economic order, and comprehensively deepening reform" in order to "stabilize the economy and deepen reform" as proposed by the CPC Central Committee and decided at the Third Plenary Session of the 13th Party Congress. It has relied on the joint efforts of all nationalities throughout the province to make substantial progress in economic construction and various social endeavors. The overall situation is good.

*Continued Growth of the National Economy* Gross social output value for 1988 amounted to 8.678 billion yuan, an 11.1 percent increase over 1987 in terms of comparable prices. Gross national product reached 5.44 billion yuan, up 11.0 percent from 1987 at comparable prices. National income reached 4 billion yuan, up 10.2 percent at comparable prices. The gross output value of industry and agriculture was 4.18 billion yuan (figured at constant 180 prices), for a 14.1 percent increase over 1987. Development of the national economy was fairly normal.

Both the rural and the pastoral economy continued to develop, a fine harvest being obtained in both farming and animal husbandry. Despite natural disasters in some areas during 1988, thanks to the effectiveness of actions taken, and efforts made everywhere to increase production, plus increased investment, a fine grain and oil-bearing crop was reaped, and output of animal husbandry products also increased. The gross output value of agriculture for the province was 1.128 billion yuan, a 2.76 percent increase over 1987 at comparable prices. Gross output of grain was 1,058,200 tons, a 1.6 percent increase over 1987. Gross output of oil bearing crops was 104,500 tons, up 0.67 percent from 1987. The number of livestock in inventory at the end of 1988 was 20,963,700 head, up 3.3 percent from 1987 for a comeback to the 1985 pre-snow disaster level. Live hogs in inventory numbered 922,400. The number of livestock animals removed from inventory, and outputs of meat, wool and goat hair, milk, and eggs saw varying degrees of increase. New advances were made in afforestation and economic diversification, and township and town enterprises developed steadily. Development of the rural economy, and increases in procurement prices for some farm and animal husbandry products markedly increased the earnings of peasants and herdsmen, per capita annual net income reaching 492.82 yuan, 25.67 percent more than in 1987. After adjustment for price increases, the increase was 15.4 percent.

Industrial, communications and transportation production increased steadily, and economic benefits improved. The gross output value of industry for the whole province was 3.051 billion yuan, up 20.17 percent from 1987. Output of electric power, crude petroleum, processed steel, ferrosilicon, and nonferrous metals, as well as of the means of production and articles used in the daily life of the people increased fairly greatly. Some

key projects were either completely or partially finished, going into production for further improvement in supplies of energy and raw and processed materials. Industrial enterprises economic returns improved as a result of a readjustment of their product mix, increases in output while economizing, and the institution of enterprise contract systems. In independently accounting enterprises under ownership of the whole people, the labor productivity rate for all personnel was 17.35 percent higher than during 1987. The profit and tax rate on capital for local state-owned industrial enterprises within budget rose 2.62 percentage points over 1987, and energy consumption per 10,000 yuan of industrial gross output value declined 4.73 percent from 1987. Passenger and freight transportation turnover volume increased. Posts and telecommunications developed fairly rapidly, 10,000 circuits of programmable telephones being finished and put to use in the improvement of the province's communications. Post and telecommunications volume was up 22.6 percent from 1987.

The scale of investment in fixed assets was brought under preliminary control, and the structure of investment readjusted. A total of 2.031 billion yuan was invested throughout the province in the capital construction, replacement, and technical transformation of units under ownership by the whole people. This was 17.06 percent more than in 1987. Simultaneous with implementation of the "three guarantees and three reductions policy," new capital construction projects, particularly nonproductive construction projects, were controlled. Construction of key projects was further intensified, and investment in energy industry capital construction increased 48.3 percent. The percentage of local investment in projects of a nonproductive nature declined from 53.8 to 47.4 percent.

City and township markets were lively, fine achievements being made in both internal and external trade. During 1988, government and units concerned at all levels took effective actions to increase production, and expand sources of supply, substantially insuring market supplies. Total retail sales of social commodities throughout the province amounted to 2.84 billion yuan—a 24.66 percent increase over 1987. The total value of foreign trade exports for the year was \$45.58 million, up 13.5 percent from 1987. Of this total, 64.9 percent derived from the export of mining products, textiles, and machine tools in further improvement of the export mix.

Local financial revenues continued to grow, and both the amount of currency put into circulation and the scale of credit were controlled within plan. As a result of economic development and institution of government financial contracting of responsibility, local financial revenues continued the growth that was seen previously for 3 consecutive years, reaching 507 million yuan in 1988, a 106 million yuan increase over 1987. The yearend bank credit surplus stood at 4.868 billion yuan, a 1.16 billion yuan increase over 1987, and a total of 169

million yuan was placed in circulation, both controlled within plan quotas for vigorous support to development of economic construction.

*Steady Advances in Economic System Reform* Simultaneous with continued stabilization and perfection of rural contract responsibility systems linked to output was both the establishment and strengthening of a two-tier operating system, and some farming counties' institution of a system whereby land was graded and yields set, bonuses given for yields above the set figure, and punishments provided for yields below the set figure. This increased peasants' sense of responsibility for production, and the service function in collective economic organizations. Pastoral area reforms built on the stabilization of household by household family operations for a strengthening of grassroots level organizations' unified management service functions. With support from the state, civilian operated hog, sheep and goat, and poultry raising animal husbandry societies continued to emerge to stimulate the enthusiasm for production of herdsmen and peasants.

Enterprise contract management responsibility systems made new advances. As of the end of 1988, 78 percent of industrial enterprises within budget throughout the province, and 97 percent of large and medium size enterprises were contracting. Among large- and medium-sized state-owned commercial enterprises, 97.2 percent were contracting, and 94.2 percent of small commercial enterprises were doing leasing or contracting. Among collective enterprises, more than 85 percent were engaged in contracting, leasing, or stock share deals. As part of pushing ahead with contract systems, the competition mechanism was actively introduced throughout the province; plant manager responsibility systems were consolidated and perfected; and the linking of total wage bills to economic returns was promoted for a strengthening and improvement of enterprises' internal administration, and an increase in enterprises' vitality.

*Formulation of Preferential Policies for City and Town Collective Enterprises* In order to solve problems with lack of smooth management in the province's collective enterprises, blockages in production and marketing channels, and rather weak self-development capabilities, the provincial government drew up "Various Regulations on Hastening Development of City and Town Collective Industries." This provided that collective enterprises enjoyed the right to run enterprises themselves, select plant managers themselves, hire workers themselves, set wages themselves, and be responsible for their own profits and losses. It also liberalized policies, provided services, and infused new vitality into collective enterprises. In 1988, the output value of collectively owned enterprises rose 14.5 percent over 1987.

Advances in reform of the foreign trade system enhanced ability to earn foreign exchange through exports. In order to meet needs in opening to the outside world and developing foreign trade, the provincial government drew up "Methods of Accelerating and Deepening



Reform of the Foreign Trade System" in accordance with the unified planning of the State Council to give complete impetus to a contract management responsibility system in foreign trade. This system instituted a system of comprehensive base figures for foreign exchange-earning exports, no subsidies for excess losses, and full retention of all reductions of losses. This produced remarkable results. During 1988, foreign exchange earnings from exports exceeded contracting goals with a slight surplus remaining from the subsidization of losses.

The financial management system's introduction of a contracting mechanism stirred the initiative of all jurisdictions and all departments to increase earnings and reduce expenditures. During 1988, the provincial government finance department decided on various forms of contracting as different circumstances warranted. They also signed contract responsibility agreements for financial receipts and expenditures with autonomous, prefecture, and municipal governments. During the year, all jurisdictions did all possible to tap potential for increasing revenues, thereby substantially increasing the financial revenues of autonomous zhous, prefectures, and municipal governments. At the same time, contracting with some administrative institutions impelled the contracting units to strive to earn income and conserve expenditures, thereby defining the units' responsibility for achieving a balance themselves through contracting.

At the same time, the province carried out attendant reforms in planning, investment, materials, business, finance, and banking for a strengthening of management and supervision of prices, tax matters, auditing, and industrial and business administration, and the establishment of markets for allocating foreign exchange, transferring treasury bonds, labor, and real estate.

Lateral economic links saw substantial development, entrepreneurial groups beginning to cross regional and vocational lines to forge links with large national groups for further expansion of the opening to the outside world.

*New Development of Scientific, Educational, Cultural, and Medical Institutions* All levels of government reinforced the concept of reliance on science and technology to develop the economy. Many places installed deputy county magistrates, deputy township heads, and deputy village headmen for science and technology for the steady enlivening of science and technology campaigns, and campaigns of various kinds for the popularization of science. In order to spur a link up between science and technology and the economy, during 1988 the provincial government promulgated two regulations having to do with removal of restraints on scientific research organs and removal of restraints on science and technology personnel. It also drafted a series of associated documents for deepening reform of the science and technology system. The association between scientific research and production is deepening, with some science

and technology production-type enterprises beginning to be established. Many scientific and technical personnel have left government organizations and scientific research institutions to sign contracts with or head up collective enterprises, or township and town enterprises. More than 10,000 scientific and technical personnel have taken part in various kinds of activities concurrent with their employment, plunging into the main battle ground of economic construction. The technology market has opened up further, accelerating the application of technical achievements to commodities for remarkable social and economic benefits. Social science research emphasizes the linking of theory to practice in the exploration of problems in Qinghai Province's economic and social development, achieving heartening results. Vocational reform is moving ahead smoothly. A number of intellectuals have been evaluated and taken on in high and intermediate level specialized technical positions where they earn wages, thereby improving both their working and living conditions.

Appreciation of the strategic importance of education has increased everywhere. A basic concept for the reform of education has been decided, and an educational system that includes "compulsory education," "school operation at different levels and different levels of management," which has been preliminarily instituted is being gradually put in place. Reform of the system for enrollment in colleges and technical secondary schools, and for the assignment of graduates is proceeding steadily. Serious attention is being devoted to moral education in schools, and new developments are taking place in education of all kinds at all levels. The school enrollment rate for children of school age in the province is 83.4 percent, and the continuation rate and graduation rates are 94.1 and 89.5 percent respectively. Nationalities education is developing steadily, minority nationality students amounting to 29.2 percent of students in regular schools throughout the province. Vocational and technical education, and adult education have developed rapidly. Both the structure and departments and branches of higher and intermediate education are in process of readjustment. During 1988, 29.21 million yuan was invested in the capital construction of education for the building of 96,000 square meters of new school buildings. A total of 73.6 million yuan was raised throughout the province for the improvement of 146,000 square meters of dangerous middle and primary school buildings for an improvement in teaching conditions.

Reform of the literature and art system is proceeding steadily. Outstanding achievements have been made in literary and cultural exchanges. New achievements have been scored in the fields of medicine, education, broadcast television, and news publishing.

The party's nationality and religion policies have been further implemented for a strengthening of the unity of nationalities. Public security and judicial departments, as well as armed police units, have done much work in safeguarding social order. Governments at all levels have continued to carry forward the glorious tradition of



supporting the army and giving preferential treatment to the families of revolutionary armymen and martyrs for consolidation and development of relations between the armed forces and government, and the armed forces and the people. PLA forces stationed in Qinghai Province have made new contributions in supporting the socialist construction of the province.

Delegates! During the past year, we have rather satisfactorily fulfilled the various government work tasks for 1988 put forward at the First Session of the Seventhth [Provincial] People's Congress; however, quite a few problems and difficulties also exist.

Prices have risen too high, causing a decline in the real standard of living of some city and town residents. During 1988, the province's retail price index rose 18.3 percent, including a 28.4 percent rise in nonstaple food prices. The increase in prices has outstripped the endurance of the masses, enterprises, and the local treasury, causing a decline in the real living standard of some city and town residents. This problem has aroused the concern of government and society, and has disquieted the populace. It is a major difficulty in current efforts to improve the economic environment. In addition, because overall demand remains greater than overall supply throughout the country, and since most of the province's commodities have to be shipped in from other provinces, attainment of the goal of markedly lowering the extent of price increases in 1989 is an extremely daunting task.

The agricultural foundation is fragile, and the conflict between grain supply and demand becomes more acute with each passing day. The agricultural foundation has become stronger in recent years; nevertheless, the restrictions that subjective conditions impose, the lack of reserve strength in agriculture, and the failure of the speed of growth of grain production to keep up with the speed of population growth, particularly with the speed of growth of the commodity-grain-consuming population, has meant a year-by-year decline in the per capita amount of grain, and in the rate of grain self-sufficiency for an increasingly sharp conflict between grain supply and demand. During 1988, 600 million jin of grain was shipped into the province from outside. This was three-fourths of the province's total sales of commodity grain. Because of the increase in the amount of grain deliveries, the price of grain rose. Government financial subsidies now amount to 150 million yuan. This includes a local grain subsidy that amounts to one quarter of local government revenues for the year. Nor is the supply of grain ample throughout the country. It is becoming increasingly difficult to buy grain. The grain supply has become a major problem holding back development of the province's national economy.

Partial shortage of raw and processed materials, and of electric power; and inadequate railroad transportation capacity. As the province's economy develops, the conflict between supply and demand for some raw and processed materials, and for electric power has gradually

expanded, the shortage of coal, refined petroleum, processed steel, nonferrous metals, and industrial chemicals being particularly great. This, plus the rise in prices, has occasioned substantial difficulties for and pressures on industrial production in 1989. On the transportation side, the Qinghai-Tibet Railroad's transportation capacity is limited. The steady increase in the shipment of goods has produced an extremely conspicuous contradiction between transportation capacity and needs. Some of these situations need to be changed gradually; others will be difficult to ameliorate in a short period of time. They have become a crucial factor restricting exploitation of the province's resources and the development of its economy.

The conflict between financial resources and needs is glaring; balancing government financial receipts and expenditures is very difficult. The province's local financial revenues have grown steadily in recent years increasing by 344 million in 4 years. However, government financial expenditures have grown even more rapidly, increasing by 502 million yuan in 4 years, the amount being greater than the amount of increase in revenues. The province finds it difficult to continue financing, and zhou and county financing is also rather difficult. During 1989, the state will make no further increases in the fixed amount of assistance to the province, and getting an increase in assistance for special projects will also be very difficult. Furthermore, various reform measures that the state is preparing to unveil will result in a reduction in financial receipts and an increase in financial expenditures for the province. Consequently, the tasks of balancing financial receipts and expenditures during 1989 is an even more daunting one. In the area of finance and banking, because of the steady increase in demand for loan funds, credit balances of banks and credit cooperatives have widened with each passing year. The state has reacted by strictly controlling both the amount of credit and the issuance of currency. The funds shortage is bound to become worse.

Administration and management of industrial and transportation enterprises should be improved since their economic returns are not high. The province's industrial and transportation enterprises have become more vigorous, and their economic returns have improved in recent years as a result of the deepening of reform. Nevertheless, they still have a long way to go by comparison with other provinces and cities throughout the country. In 1988, the profit and tax rate on the capital of industrial enterprises within the provincial budget was 9.76 percent, up 2.62 percentage points from the previous year. Nevertheless, it was still the lowest in the whole country (no data available for Hainan and Tibet). In some trades and enterprises, to one degree or another, too many fixed assets and too much working capital is used, working capital turns over slowly, and losses are serious. Because of the rise in prices of raw and processed materials, production costs for fuel, power, and wages have increased. This, plus administrative and management factors, has meant a 10.36 percent rise in

the comparable product costs of industrial enterprises within budget, an 6.74 percentage point increase over 1988. The situation that industrial production faces during 1989 is a grim one in which the amount of enterprise losses may continue to expand. Increasing economic returns will require the expenditure of more energy in an effort to open new avenues.

There are many unsettling elements in the maintenance of social order causing a serious situation. The number of criminal cases, particularly big criminal cases, has increased since 1988. The trend is also toward increase in public order cases involving stabbings, and hooliganism. Despite repeated prohibitions, there has been no halt to social evils. In farming and pastoral areas, several fights have occurred over grassy mountains and desirable land. Not only have these problems disturbed the normal social order, but they have damaged the country's and the people's life and property.

Despite changes in government work style, the role of departments as a whole, and of departments and bureaus in charge has not been used to the full. Some problems have not been deeply studied, so there is neither sufficient consensus about them nor concerted action taken. Government operating efficiency is not high; there are many meetings, many documents, foot dragging, and arguing back and forth, causing the loss of opportunities for taking important actions in economic life. In some departments, rule of law concepts are not well established; every department is a law unto itself; and government speaks with many different voices. This results in a lack of forceful government leadership. In the strengthening of the agricultural foundation, giving a high degree of attention to education in science and technology, thinking lags behind events. Additionally, further strengthening must be done in the areas of willingly accepting supervision from the masses of the people, and democratic discussion and dialogue. The overwhelming majority of government workers are honest and hard-working; however, a small number of workers misuse their authority for private gain, spend freely and waste, abuse public office for personal benefit, and engage in corruption and bribery. They have damaged the social atmosphere, and hurt the government's prestige. They have incurred the hatred of the broad masses of cadres and people, and they have also incurred the hatred of an overwhelming majority of government workers.

The foregoing contradictions and difficulties are, in an overall sense, problems that come with advancement and development. At the same time, they are also related to ineffectiveness in government work. As reform deepens, and constructive endeavors develop, when past contradictions are resolved, new problems and contradiction may steadily appear. Consequently, we must think along the same lines, reach a consensus, and overcome difficulties to continue to move ahead. We must unwaveringly carry out the CPC Central Committee's various plans and policies for improving the economic environment and rectifying the economic order,

resolutely safeguard the CPC Central Committee's leadership authority, uphold and protect the State Council's leadership authority in government work, and uphold and safeguard the authority of law and discipline for genuine execution of commands and a halt to proscriptions. Second is the need to take the interests of the whole into account in the steadfast establishment of the concept that the interests of a part are subordinate to the interests of the whole. When the interests of a part conflict with the interests of the whole, all jurisdictions and all departments are to take the initiative in abandoning the interests of a part to safeguard the interests of the whole. Third is being of one heart and one mind, arduous struggle, uniting as one, and working together to get through difficulties. Government at all levels should take the lead in hard work and thrift, resolutely opposing extravagance and waste. Today's contradictions and difficulties should be explained clearly to the masses to gain the people's understanding and support. Fourth is the need for correctly handling the correlation between improving the economic environment and restructuring the economic order, and the deepening of reform, the correlation between readjusting the structure and stabilizing development, thinking along the same lines, and concerting actions to insure sustained, consistent development of the national economy, to insure tranquillity and unity in the social environment, and to insure that reform follows a correct orientation for steady advancement.

Delegates! In accordance with the unified plans of the State Council and the provincial CPC committee, the chief requirements in government at all levels in our province for 1989 are: to focus on improving the economic environment and restructuring the economic order, rendering a good performance in economic readjustment, deepening reform in every way, taking firm grip on increasing returns, using every available means to increase effective supply, and striving to create a stable social environment, thereby enabling sustained, healthy development of the national economy, and all constructive endeavors. Attainment of the foregoing goals requires that government at all levels take firm grip on work in the following eight regards:

#### **1. Continued Implementation of the Policy of Improving the Economic Environment and Restructuring the Economic Order for Diligent Readjustment of the Economic Structure**

Improving the economic environment and restructuring the economic order has a bearing on the overall situation in reform and construction. The current improvement of the economic environment and restructuring of the economic order is taking place during a time of overlap between the new and the old system, and the existence of a two track price system. This makes it more difficult than previous economic readjustments, and poses new and higher demands on our work. Therefore, we must heighten our understanding, and strengthen our convictions to carry out improvement of the economic environment and restructuring of the economic order with

one heart and one mind. Since the 3d Plenary Session of the 11th Party Central Committee, all levels of government in the province have done a great deal of work in improving the economic environment and restructuring the economic order, achieving preliminary results. As a result of a stock taking of investment in fixed assets, 69 construction projects in the province have been halted or postponed; 11 construction projects have been curtailed; and early stage work on 12 projects has been halted for a cutback in investment totaling 94 million yuan, which is 4.5 percent of the total investment in construction. Major checks of financial affairs, tax receipts, and prices have uncovered violations of discipline involving 26.32 million yuan that should have been paid to the government, 18.52 million of which has been paid into the national treasury. A total of 3,061 cases of violations of the law on prices involving more than 9.93 million yuan were found and dealt with. More than 5.57 million yuan in illegal income was confiscated, and more than 210,000 yuan in fines meted out. Restructuring of commodity circulation procedures has meant the dissolution and merger, and the contemplated dissolution and merger, of 18 companies of various kinds, 12 of which were companies operated by party and government organs. Most of the party and government cadres who held concurrent positions in businesses resigned their company positions or their positions in party and government organs. A number of cases involving violation of economic laws and regulations were investigated and disposed of, including more than 2,000 cases of speculation in violation of the law or of rules and regulations, 3.79 million yuan, and goods worth 22.63 million yuan being confiscated in punishment. A major investigation of credit resulted in a more than 80 million yuan cutback in the amount of credit funds. Loan funds amounting to 60 million yuan that were lying idle, or which had been diverted to purposes other than the intended ones, were found and recovered, and 3.7 million yuan in excess of reserve limits were recovered. As a result of curtailment of the purchasing power of social groups during the period of price increases, the total value of social groups' purchasing power throughout the province declined from 1988. After deducting the rise in prices, the actual decline was 18.5 percent, including a 15.4 percent decline from control of commodities.

Despite the definite achievement made during the past half year in improving the economic environment and restructuring the economic order, future tasks are still very daunting. We must better appreciate the necessity and the urgency for improving the economic environment and restructuring the economic order, fully realize how difficult is the task of improving the economic environment and restructuring the economic order, unswervingly taking firm hold of this work that has a bearing on the overall situation in order to set the stage for stabilizing the economy and deepening reform.

*Continued restriction of the scale of investment in fixed assets.* During 1989, state investment in large and medium size projects in the province increased 28.7

percent over plans at the beginning of 1988, and local government investment in fixed assets was cutback approximately 20 percent from 1988. Since the state is providing support and preferential treatment, we must direct attention to the overall situation, both resolutely controlling the scale of investment in fixed assets within state-set plans, and genuinely readjusting the investment structure, saving some parts while curtailing others, emphasizing guarantees for agricultural development projects, and insuring the construction of energy, raw and processed materials, and transportation projects in order to build up the province's reserve strength for economic development. Examination and approval of new projects to be initiated must be rigorous, no new construction of multistorey buildings, halls, or guest facilities being permitted for the near future. All construction projects underway that should be halted must be halted, and all construction projects that are to be postponed positively must be postponed. Rational plans for halting and postponing construction must be drawn up; project approvals for projects to be halted must be revoked; and postponed projects may not be resumed for 2 years. A good job must be done in tying up loose ends to limit losses after halts and postponements.

*Resolute curtailment of social group consumption.* Strict control of the purchasing power of social groups not only has a bearing on the inhibition of overall social demand, but is also an important part of the maintenance of clean government and opposition to extravagance and waste. This year, we will continue to carry out the State Council's decisions on strict control of the purchasing power of social groups by taking measures to control quotas, by collecting surcharges on designated consumer goods, by expanding the number of kinds of specially controlled commodities, and by instituting an examination and approval system in advance for the purchase of specially controlled commodities, in an effort to cut social group consumption throughout the province by another 20 percent from 1988. Departments concerned, including planning, financial, banking, auditing, and business departments are to coordinate closely, working together with authorities in charge at all levels for the joint strengthening of control, supervision, and checks in this regard in order to insure curtailment.

*Close attention to the checking and restructuring of companies of all kinds.* The focus in checking and restructuring companies is to be on solving problems in no separation of government administration and enterprise management, people in government holding concurrent positions in business and vice-versa, illegal selling of goods at a profit, and seeking exorbitant profits. All companies must dissolve their ties with Party and government organs within a limited period of time, and all incumbent, resigned, or retired cadres in Party and government organs must resign their positions in companies and enterprises in accordance with regulations, or else resign their positions in party and government organs. Additionally, firm hold must be taken on checking and restructuring of foreign trade companies of

all kinds in accordance with State Council instructions. The results of such checks and restructuring of companies of all kinds are to be publicly announced for the scrutiny of the masses of people, and public opinion. Departments concerned must institute a rigorous company examination and approval system to avoid the occurrence of future confusion in companies.

*Diligent restructuring of commodity circulation procedures.* Simultaneous with checkups on all kinds of companies should be more restructuring in the commodity circulation area, particularly wholesale markets, permitting only designated monopoly purchase and sale departments or sales agent units to engage in the wholesale market business. State prescribed monopoly purchase and sale methods and price policies must also be strictly enforced, the use of a monopoly position to make private profits not being permitted. Unfranchised materials are to be traded openly in markets. No department or individual may take advantage of the two-track price system to profiteer illegally from commodities and goods within plan in an attempt to make exorbitant profits. Enterprises and dealers of all kinds are to rigorously carry out all fiscal, tax, and price policies, operate according to law, and pay taxes according to regulations. Enterprises are to stop taking wrong actions including skimming a percentage off the top, practicing usury, imposing arbitrary exactions, or collecting undeserved fees. Economic contracts are to be better policed in a resolute crackdown on illegal actions such as the manufacture and sale of fake and shoddy commodities misrepresented as being otherwise, attempts to dominate markets, and tax cheating and evasion that hurt the interests of the country and the masses.

In improving the economic environment and restructuring the economic order, only firm attention to readjustment of the economic structure can prevent a withering of production, avoiding economic stagnation to insure sustained, consistent development of the national economy.

Readjustment of the national economic structure means readjustment of the industrial structure, first of all. "Decisions on Current Industrial Policy Essentials," which the State Council promulgated recently, spelled out the need to concentrate energies on the development of basic industries, namely agriculture, energy, transportation, and raw and processed materials, to build up industries that can increase effective supply, and to limit run of the mill processing industries. Applying this principle, the emphasis in readjustment of this province's industries is as follows: Genuine strengthening of the farming and animal husbandry base, with vigorous development of grain production; firm attention to the technical transformation of, and development of the products of existing enterprises, primarily with a view to improving economic returns; efforts to improve transportation and communications, thereby actively creating conditions for the development of salt lake resources, the development of basic industries such as energy, raw and

processed materials; and emphasizing support to large- and medium-sized enterprises genuinely able to increase effective supply, maintain markets, and maintain financial revenues for the government. Township and town enterprises, and collective enterprises should develop steadily as markets require.

Along with readjustment of the industrial structure, the opportunity should be taken to readjust the product mix, the investment structure, and the enterprise organizational structure. Readjustment of the product structure should be closely related to the people's daily lives and be able to increase and improve the effective supply of products. Efforts should be made to increase output once quality is improved. Readjustment of the investment structure should be linked closely to cutbacks in the scale of investment in fixed assets, some investments maintained while others are reduced. A tilt policy should be adopted for the development of key industries. Priority should be given to those projects that do not require much investment, whose products are in very great demand, and that provide good returns. Readjustment of the organizational structure of enterprises should be in accordance with the principle of a rational allocation of resources, founding and developing entrepreneurial blocs to meet the needs of a specialized division of labor and the economies of scale. The key role of large- and medium-sized enterprises should be used to the fullest in providing active support, and urging along small enterprises, collective enterprises, township and town enterprises, and privately owned enterprises that provide good economic benefits and a fairly fast return on investment.

The formulation of correct industrial policies is the foundation for readjustment of the industrial structure and the realization of macroeconomic regulation and control. In the course of improving the economic environment and restructuring the economic order, we must combine economic development strategy with reform of the economic system, formulating detailed rules and regulations for carrying out the province's regional industrial policies in accordance with the key elements in state industrial policies taken together with realities in Qinghai. We should also apply economic, administrative, and legal techniques to insure realization of the goals of industrial structure readjustment.

## **2. Vigorous Development of Grain Production to Strive for a Fine Harvest in Farming and Animal Husbandry**

Diligent strengthening of the farming and animal husbandry foundation to hasten the development of grain production, and to increase the output of livestock products is a main ingredient in improving the economic environment and restructuring the economic order, and in readjusting the economic structure. It is also a key measure for increasing effective supply to stabilize the overall economic situation. Development of the province's farming and livestock industry production requires adherence to the guiding thought of reliance first on policies, second on science and technology, and

third on increased investment, farming the existing cultivated land well, protecting existing pasturelands, hastening the development of agriculture, instituting scientific livestock raising, and firm attention to grain production, advancing the all-around development of farming, forestry, animal husbandry, sideline occupations, and fishing.

Good farming and good care of existing cultivated land is a major aspect of current agricultural production. Close attention must be paid to all links in production, effective measures taken actively in an effort to increase both yields and output, every means employed to win a bumper harvest in agriculture this year. First is an expansion of the growing area, increasing the multiple cropping index. During 1989 the province has increased the grain growing area by 90,000 mu, and the oil-bearing crop growing area by 70,000 mu. In the eastern agricultural region where climatic conditions are better than elsewhere, intercropping, companion cropping, and multiple cropping is being tried out on a 200,000 mu area. Second is widespread promotion of the results of applied science and technology, organizing the implementation of a "bumper harvest plan." Dryland farming techniques continue to be promoted through the founding of scientific research model townships and villages for different kinds of dryland farming. The emphasis in this promotion is gradually shifting toward mountain areas. Methods of contracting science and technology are being further perfected, and the area in which contracting of science and technology in the growing of grain crops being done is expanding. Active efforts are underway to promote multiple bumper yield techniques such as the growing of superior varieties, the growing wheat, mountain barley, broad beans, and low erucic acid rape. Third is to do a good job of producing and supplying the means of agricultural production for the strengthening of multiple associated services to agricultural production. Emphasis should be placed on the development of industries that produce things needed in agriculture, actively organizing the allocation of sources of supply, doing a good job of exclusive selling and supplying of chemical fertilizer, agricultural pesticides, and plastic mulch, being sure that the means of production used in agriculture are placed in the hands of producers in time for the farming season. Full use should be made of hemp leftovers and sheep dung in the province for the development of organic fertilizer pellets to improve fertilization in order to revive and reinvigorate the land's fertility. Close attention should be given to the prevention and control of diseases and insect pests as part of doing a truly fine job of field care. A good job should continue to be done in the care and construction of water conservancy facilities, making the most of existing water conservancy facilities. Good work should be done in forecasting and giving early warning of disasters, and efforts made to improve capabilities to withstand disasters, resistance to disasters being the foundation for winning bumper harvests. All trades and vocations should energetically support agriculture, providing various kinds of services to agricultural production.

The buttressing of agriculture's reserve strength, and the maintenance of steady increases in agricultural production require increasing the investment in agriculture through many channels, establishing an agricultural development fund for active development of soil resources and farmland capital construction. The provincial CPC committee and the provincial government have decided to provide 20 million yuan annually for the development of agriculture beginning in 1989, simultaneously making active efforts to obtain state assistance and to import foreign capital to bring an additional 400,000 to 500,000 mu of land under cultivation during the next 4 years. The development of agriculture must be carried out at multiple levels in multiple ways, adhering to a principle of the country, collectives, and individuals all rising at the same time, simultaneous with government investment in development. Preferential policies must be diligently implemented that enable the use rights of those who develop and farm the land to be inherited, and transferred, taxes on such land to be reduced or waived for a period of 3 to 5 years in order to arouse the full the enthusiasm of collectives and individual peasants to reclaim land for cultivation. Cultivated land that the state and collectives develop is to be contracted by the Agricultural Development Company for farming on a suitable scale. In the process of development, the lessons of history in rushing headlong into mass action without regard for circumstances should be assimilated, firm attention paid to scientific validation and planning in the rational allocation of proportions of the land for farming, forestry, and animal husbandry, farming forestry and animal husbandry thereby becoming organically combined for mutual assistance and advancement. Development and production must be dovetailed for mutual advancement. Results should be gained from each plot that is developed for the realization of integrated social, economic, and ecological benefits. Simultaneous with the bringing under cultivation of new land should be strict control over arbitrary takeovers of cultivated land and abandonment of cultivated land to wilderness, expanding both the cultivated land area and the area sown.

Of greatest importance in the development of agriculture at this time are the following: More farmland capital construction. During the next 4 years, 120,000 mu of new terraced fields should be built each year simultaneous with doing a good job in the field of water conservancy; the improvement of medium- and low-yield fields, development of dryland agriculture, and doing a good job of bringing small river basins under control; and accelerating the building and development of grain, oil-bearing crop, and broad bean production bases. In the development of agriculture, all jurisdictions should continue to carry out a policy in which self-reliance is primary, state support ancillary, labor being accumulated and funds pooled at many levels and through many channels to build farmland water conservancy in order to increase the irrigated area and improve grain yields, gradually achieving regularization and systematization. In addition, close attention should be

given to the conservation of water and soil, and to the building and care of small hydropower. Provincial water conservancy authorities should pay close attention to the building of 10,000 mu irrigated areas, 1 million cubic meter or larger reservoirs, and medium-sized hydropower plants, and to the building and management of key water conservancy and agricultural development areas.

Continuing efforts should be made in the active launching of campaigns to plant grass and plant trees to hasten the pace of greening throughout the province. Right now, a good job must be done of protecting forestland resources, of improving fire prevention in forests, of preventing and controlling diseases and insect pests, and of preventing reckless cutting and denudation. It is necessary to give active impetus to forest networks and green belts in cities and towns, agricultural areas, and small oases agricultural areas, and to do a good job of planting trees to make forests along both sides of railroads and highways. Grasslands, particularly plant cover on deserts, should be protected in an effort to improve the ecological environment.

In animal husbandry production, strong emphasis should be placed on grassland animal husbandry, efforts made to develop animal husbandry in farming areas, and to increase livestock product output for active increase in effective supply. Overall planning that takes all factors into account, suiting general methods to specific circumstances, and providing tailored guidance should be upheld. In southern Qinghai, natural grasslands should be protected and used sensibly, hay harvesting and storage bases built, and a livestock feed industry developed for steady development of animal husbandry premised on an increase in the gross rate of increase and the commodity rate. In lakeside areas, in the Qilian mountains, and in the Tsaidam Basin in western Qinghai, emphasis should be placed on maintaining both quantity and quality in livestock production, close attention given to improving livestock breeds, seasonal animal husbandry production vigorously promoted for further increase in economic returns. In farming areas, equal emphasis should be placed on both hog and poultry and cattle production in the building of hog, poultry egg, and milk cow production bases. Firm hold should be taken on the favorable opportunity that the vigorous demand for livestock products during the past years has provided for guiding the initiative of herdsmen toward the building of production, strengthening unified service functions, giving close attention to the building of livestock bases centering around the hay industry, hastening building associated with the development of pastoral areas where herdsmen have settled down, expanding the growing of grass, putting into effect measures to withstand disasters and protect livestock, and steadily increasing the percentage of female livestock animals to advance the steady development of the livestock industry.

Attention to "grocery basket" projects holds important significance for improving the people's livelihood, and

holding down market prices. Xining should use the consistent and good farming of existing vegetable fields as a basis for linking up with neighboring areas to develop new vegetable bases for increased availability of vegetables, increasing the amount going to market. Eastern farming regions, city and town suburbs, and industrial and mining areas having requisite conditions should strive to develop the production of vegetables, and of nonstaples such as meat, poultry, eggs, and dairy products. Continued encouragement should be given to the broad masses of peasants to plant "vegetable gardens," and to do a good job of breeding aquatic products. Encouragement and support should be given to households specializing in the growing of vegetables and the breeding of aquatic products for active development of freshwater fisheries to increase commodity rates and economic returns. "Grocery basket" projects should fit in with grain production, primarily for the local development of sources of livestock fodder. Livestock feed processing and supply, the breeding of fine strains, and epidemic disease prevention and control systems should be developed in a planned way, and associated vegetable and livestock product processing, and storage and transportation facilities should be built to advance development of production, supply, and marketing as an organic whole. Currently, special attention should be given to livestock feed production and supply, effective measures taken to guard against apathy with regard to hog and milk cow production. Priority should be given to providing the means of production and funds needed for vegetable and nonstaple food production. In addition, a system that links grain and vegetables should be diligently implemented to do a good job in vegetable procurement and supply.

Development of township and town enterprises plays a positive role in increasing the economic strength of rural village and pastoral areas in providing jobs for surplus rural labor, in increasing peasant and herdsman income, and in promoting the development of farm and animal husbandry production. Implementation of a policy of improving the economic environment and restructuring the economic order both provides new opportunities and also occasions some new problems and difficulties for the continued development of township and town enterprises. We must seize the opportunities, and confront the difficulties squarely, further advancing the steady development of township and town enterprises through active readjustment of the structure and strengthening of management. We must adhere to the principles of seeking truth in facts and suiting general methods to specific circumstances in order to emphasize, under guidance of state industrial policy, the development of projects that have a good foundation, sell well, and provide high economic returns. We must continue to put into effect policies that encourage the development of township and town enterprises, do more coordination and service work, and emphasize the introduction of technology and the training of skilled personnel to reinforce self-development capabilities of the enterprises. In order to advance development of township and town enterprises,



once overall planning and scientific validation has been done, the provincial finance department intends to allocate special funds as circulating capital to support township and town enterprise, and to develop economic diversification, additionally providing them appropriate preferential treatment in allocations of materials.

In accordance with pertinent State Council regulations on protected mining in gold production, the mining of gold by individuals is to be firmly prohibited beginning in 1989, and collective gold mining actively organized. Areas having gold deposits should do centralized planning and improve management to do a good job of protecting both the resources and the environment. Places having requisite conditions should also diligently organize the gathering, processing and purchasing of Chinese medicinal herbs such as licorice root [*Radix Geycyrrhizae*], rhizome of wind-weed [*Rhizoma Aemarrhenae*], and Chinese caterpillar fungus [*Cordyceps chinensis*], as well as wild growing cash crops to increase the masses income and expand supplies for export.

After more than 3 years of active efforts, very great strides have been made throughout the province in providing support to the needy. The food and clothing problem of 70 percent of the needy households in 10 nationally designated needy counties and 50 provincially designated needy townships has been solved, 40 percent of the needy households taking the first step in escaping from poverty, and 28 needy townships managing to rise above the poverty line. In response to the near-term objectives that the CPC Central Committee and the State Council have set, and requirements that the provincial CPC Committee has set, the goals of support to the needy in the province this year is a substantial solution to the food and clothing problems of needy households in 90 percent of the farming region and 70 percent of pastoral areas. Doing this will require continued implementation of a system for looking after the needy in individual townships. It will entail a system for making sure that each needy household receives support funds and materials intended for it, using science and technology to help the needy, and using industrial manufactures so that work replaces debt, as well as other measures in combination, giving special attention to "food and clothing projects," actively developing industrial sideline production and economic diversification, and operating developmental projects and economic entities to provide support to the needy to solve the problem of food and clothing for the needy with all possible speed. In places where food and clothing problems have been solved, attention should be given to the improvement of production conditions and the operation of industrial sideline industries, farming and breeding industries for the gradual movement toward the basic goal of escaping from poverty and becoming wealthy, a new stage of development in which the developmental area economy is the main ingredient serving to consolidate and amplify results gained in providing support to the needy.

### **3. Energetic Development of Grain Production To Achieve Fine Harvests in Both Farming and Animal Husbandry**

In view of requirements in improving the economic environment and restructuring the economic order, industrial production in the province during 1989 will center around improvement of economic returns, efforts made to maintain a rational speed of increase for a real increase and improvement in effective supply. The electric power industry is to make full use of existing production capacity to maintain the generation and supply of electricity in accordance with plan, striving to generate and provide more electricity to the full extent of its capacity. The coal industry is to take firm grip on production of local state-controlled coal mines, continue to support the development of small county and township coal mines, adopting effective measures for increasing output. While endeavoring to find new oil-fields, giving full attention to prospecting in the Sebei gas field, and doing a good job in the building of the three projects [sanxiang gongcheng 0005 7309 1562 4453], the petroleum industry should also maintain steady increase in the supply of crude oil, and support the needs of the local economy. The metallurgy industry should think of ways to expand sources of raw materials, to increase the finished materials rate, and to increase output of processed steel. The chemical industry should strive to increase output of potash fertilizer, devoting more attention to the local production of chemical fertilizer and readjustment of readjustment of military industrial enterprises, and making advance preparations for new projects to be undertaken. The nonferrous metal industry should increase production capacity in an effort to increase output of aluminum, magnesium, lead, and zinc to support development of local industry. The light and textile industries should do a good job of organizing salt production and transportation in an effort to increase output of name brand, premium quality products, and products in scarce market supply. They should particularly devote major effort to increasing the output of industrial wares required in the daily life of the people, doing all possible to satisfy the different needs of city and countryside resident. In production for the purpose of increasing effective supply, priority is to be given to providing support to supplying fuel for motive power, raw and processed materials, railroad transportation, and funds. Limitations are to be placed on the production of goods in oversupply to enable limited materials and financial resources to play a greater role. Key economic departments, and departments and bureaus in charge should improve allocation and coordination work to achieve balanced development of industrial production for the whole year.

The key to improved economic returns, and to increasing and improving effective supply is promotion of technological transformation and technical progress in an effort to tap existing potential in enterprises, lower consumption of materials, improve product quality, and increase the labor productivity rate. During 1989, the province will be short of financial resources, so the scale

of local investment in fixed assets will be curtailed. Nevertheless, a certain amount of funds will be gathered together to carry out technical transformation. Technical transformation can permit the full play of production capacity in existing enterprises for a hastening of the development of new products and improvement in product quality. It is necessary to make further use of advantages that the province possess in resources and skills in accordance with the requirements of national industrial policy in an effort to improve the added value of primary products by processing them, actively developing turnkey products, and researching and developing new high grade, high added value products. Machine firms should develop a number of new products that come up to the standards of the 1980's that can be used both as foreign exchange-earning exports and that can take the place of imports. The light and textile industries should strive to increase colors, styles, and designs, developing new products having a local and ethnic flavor. Metallurgy, chemical industry, and construction materials firms should focus on expansion of production capacity, developing products that can be used in multiple ways, and that prevent environmental pollution. Enterprises having requisite conditions should adopt new techniques and new technology, as represented by microelectronic techniques, in an effort to raise the level of their productivity, and improve product quality. In order to insure smooth progress in technical transformation, funds for technical transformation should be managed and used well, command plan control exercised over technical transformation projects, attention given to technical transformation products going into production and reaching full production for earliest possible realization of returns on investment.

Many weak links exist in the production and management of industrial enterprises in Qinghai Province; losses and waste are fairly serious, and there is very much room for increasing production and practicing economy, and for increasing income and limiting expenditures. During 1989, continued efforts must be made to carry out a pervasive campaign of "double increase and double economy," and to focus on administration and management, reduction of consumption, lowering of waste, curtailment and control of expenditures, and improvement of labor productivity rates. First is the formulation of equitable consumption quotas, strict quota control, awards for economies and penalties for exceeding quota, giving diligent attention to the economization of raw and processed materials, the saving of energy and reduction of waste. Second is establishing a "quality first" concept, strictly enforcing production controls, improving quality consciousness, perfecting quality testing techniques, improving quality supervision, raising the product acceptance rate and the premium product rate, and reducing the number of seconds and discards. Third is the optimization of labor groups, proper provision of the elements of production, increase in the effective use of work hours, and further improvement of labor productivity rates. Fourth is cutbacks of all

administrative expenses, strong efforts to make up deficits and increase profits, with particular stress on the implementation of responsibility systems with the goal of reducing the deficits of large firms having deficits, resolutely reversing the situation of rise in the amount of enterprises' losses. In addition, all industries are to initiate and widely develop campaigns to conserve water, electricity, and coal, as well as to repair and utilize old and discarded things in an effort to lower production costs. A policy of "safety first, and prevention first" should continue to be upheld in the diligent practice of safety in production in an effort to halt the occurrence of major accidents.

Acceleration of the development of resources holds major strategic significance for readjustment of the industrial structure, and for increasing and improving effective supply. Acting in the spirit of "Decisions on Various Problems in the Deepening of Reform To Hasten Economic Development," in 1989 it will be necessary to organize forces to do a good job in the planning and economic and technical validation of the multinational economic development zone in the upper reaches of the Huang He, and the Tsaidam Salt Lake spark development plan. It will also be necessary to accelerate technological, production experiments, and key scientific and technical work on the development of salt lake and petroleum resources, do more in the way of prospecting mineral deposits and regional geological surveys to enlarge reserves of resources, and to look for and find new mineral beds to create conditions for the exploitation of resources. Advantage must be taken of the current favorable opportunity that state priority support for energy and raw and processed industry development provides, accelerating the pace of developing the province's resources, the emphasis being on exploitation of the Tsaidam Salt Lake. In the course of exploitation, we should both carry out development in a scientific way, operate mines in accordance with law, protect resources and the environment, make multiple use of resources, and insure the building of large- and medium-sized key national projects in accordance with overall state plan, and also concentrate a certain amount of manpower, material, and financial resources to operate a number of small local joint development projects. The development of resources requires unified planning and control to halt reckless mining and indiscriminate digging that is concerned only with present benefits, improving overall economic returns to the maximum extent. Special emphasis should be given to environmental protection of the Tsaidam Basin and the Huang Shui drainage area in western Qinghai.

With the quickening in the development of resources, the contradiction of the inadequacy of the Qinghai-Tibet Railroad in providing transportation has become increasingly glaring. Increasing the railroad's transportation capacity has become a major problem in the building of the province's economy. In this connection, following discussions between the provincial government and the Ministry of Railways, a special report was



sent to the State Council recommending the adoption of special transportation rates on the Qinghai-Tibet Railroad, the increased revenues from transportation being used to improve the Qinghai-Tibet Railroad. In order to solve this transportation problem in a rational way, railroad units should improve scheduling now, tap potential, and plan in an overall way the transportation of key materials such as coal, salt, potash fertilizer, lead, and zinc. Enterprises that have the resources should buy or lease railroad cars for their own use in a effort to increase transportation volume. Full use should be made of highway transportation potential to divide up the flow between highways and railroads to reduce pressure on railroads. At the same time, attention should be directed to the building of highways, and to their maintenance and administration. Attention should be focused on the building of key post and telecommunications projects for vigorous development of posts and telecommunications, giving equal emphasis to increased volume and increased earnings to provide premium quality, highly efficient communications services for economic construction and for all walks of life.

This year's curtailment of the scale of capital construction occasions new problems and difficulties for the construction industry. In order to get out of a predicament and get through a difficult situation, full reform must be deepened, the construction market must be better managed, partnership contracting and entrepreneurial blocs must be formed for the development of economic diversification, and the widening of production avenues in order to be able to survive and develop in the midst of competition.

#### **4. Make City and Country Markets Flourish, Insuring That Price Rises Will Be Markedly Lower Than in 1988**

Control of price rises, and doing a good job of market supply is an important assurance for calming people's fears, stabilizing the overall situation, and promoting smoothness in the job of improving the economic environment and restructuring the economic order. In order to insure that price rises during 1989 will be markedly lower than in 1988, both price and market controls must be enhanced in rigorous enforcement of financial and economic discipline. Nationally set prices and fee standards must be strictly enforced for all commodities and fee collections for which the state has set uniform prices. Prices may not be increased unauthorizedly or raised in disguised ways. For major products outside plan for which the state sets the maximum price, the state maximum price must be abided by; no unit or individual may exceed it. The price remains unchanged for commodities including grain and edible oil, sugar, coal, matches, soap, and washing powder supplies rationed to city and town residents. Market prices of other necessities in the daily life of the people are to be kept basically stable. Necessary guidance and control should be exercised over the prices of agricultural byproducts, industrial means of production, and consumer goods already freed from restraints. Major commodity producing areas

may adopt a system for requesting price increases as individual circumstances warrant. At the same time, industrial and commercial, price, tax, and weights and measures departments may, in the performance of their individual duties, enhance market control. Price departments should be sure to increase price supervision and inspections, with an emphasis of the latter on the prices of necessities closely related to the daily life of the masses, prices of the agricultural means of production, and major fee standards. A reporting system should continue in effect to reinforce the masses' supervision of markets and prices. Resolute crackdowns and suppression of unlawful behavior such as attempts to dominate markets, jacking up prices, speculation and profiteering should be conducted.

Good performance in market supply to make city and countryside markets flourish is an important measure for controlling prices. Good supply requires efforts to expand sources of supply, to increase commodity supply, to effect macroeconomic control of markets, and to provide well for the livelihood of the people in cities and the countryside.

First, development of production should serve as a foundation for doing a good job in the purchase, allocation and economization of major farming and animal husbandry byproducts such as grain and oil-bearing crops, hogs, beef cattle and mutton sheep, and wool. During 1989, a two-track system will continue to be carried out in the purchase of farming and animal husbandry projects; fixed contract procurement, allocation, and economization plans will remain basically at the same level as 1988. In order to encourage all areas, and all peasants and herdsmen to fulfill and overfulfill sales plans, the whole province will continue to institute a system for linking the amounts purchased, allocated, and economized to the distribution of major materials, commodities, and funds, as well as increase appropriately the fixed contract procurement prices paid for grain, oil-bearing crops, and sheep wool for further perfection of the "three link up" policy in grain and edible oil, increasing the linkage between grain and oil-bearing crops sales to the state and the amount of fertilizer provided. All jurisdictions and all departments should establish the concept of thinking in terms of the situation as a whole, should get people to think along the same lines, should strengthen leadership, and should diligently honor purchase policies, steadily improve service quality, and strive to fulfill purchase quotas.

Second is active organization of sources of supply to increase the supply of commodities. Industrial manufactures produced in the province, and particularly articles needed in the daily life of the people for which the conflict between supply and demand is pronounced, are to be supplied in amounts necessary to satisfy the province's needs, first of all. For various important commodities covered by plan procurement, and for items needed in the the daily life of the people for which there is a market shortage, a system is to be instituted that links provision of raw and processed materials, energy, and

funds to the production of such commodities to promote an increase in their production and supply. Purchase of commodities outside the province should be improved, encouragement given to state-owned businesses, materials enterprises, collectively owned business enterprises, and individually owned businesses to conduct procurement activities at various levels and through multiple channels in accordance with the law. A certain amount of products for which the province enjoys advantages should be assembled for exchange with other provinces for commodities in short supply in the province to increase market supply in order to satisfy needs for production and the people's daily lives.

Third is improvement of market regulation and control methods to regulate the correlation between commodity supply and demand. Full use should be made of the role of the main channels that state-owned businesses, materials enterprises, and supply and marketing cooperatives provide to establish and perfect reserves of important commodities, including the means of production and necessities used in the daily life of the people that have a bearing on the national economy and the people's livelihood, as well as materials needed to fight calamities, and those used to regulate market supply and demand. In addition, a market regulation fund should be established for use primarily to support the production and sale of market-sensitive commodities for a strengthening of market regulation and control capabilities. The control of different categories of commodities should be strengthened further, important commodities having a bearing on the overall market situation being centrally allocated as a positive means of supplying basic necessities needed in the daily lives of the people. A portion of the production of high quality durable consumer goods in very great demand should be put into a reserve for use in award sales, all possible being done to remove currency from circulation. Materials departments should take firm grip on the allocation and supply of materials within plan, strive to expand supplies of goods outside plan to increase effective supply as the market situation and production require. Continued emphasis should be placed on the inventorying of warehouses, on the multiple use, conservation, and use of things, and on doing a good job of reclaiming old, no longer used materials to advance the development of production.

Fourth is readjustment of the export commodity mix in an effort to expand foreign trade exports. It is necessary to proceed from needs in improving the economic environment and restructuring the economic order, maintaining the principle of overall planning that takes all internal and external sales factors into account with regard to foreign trade exports, taking the initiative in restructuring the export mix, developing a number of new export commodities, gradually increasing the proportion of industrial and mining products and manufactures, and decreasing the proportion of agricultural byproducts, mining products, and primary products. A path should be followed that combines skilled work and trade, and skilled agriculture and trade, developing

entrepreneurial blocs for the export of products, establishing production bases, special plants, and workshops for farming, animal husbandry and sideline occupation export products, and doing a good job of upgrading and updating products to improve the quality and grade of export products. Various preferential policies for the production of foreign exchange earning export products should be stabilized and put into effect, giving priority to the provision of raw and processed materials, fuel, motive power, and funds needed for the production of export products in order to encourage more exports, and the earning of more foreign exchange.

#### **5. Active Raising of Finance Capital and Support for Development of the Economy and Various Endeavors**

In order to curtail total social demand, the state will continue to institute a "double tightening" policy during 1989, tightening both government financial expenditures and credit. The fiscal and financial situation that the province faces is increasingly serious. All jurisdictions and all departments must manage finances stringently, measuring revenues against expenditures, actively raise finance capital, and strive to increase returns from the use of funds.

Government financial work has to adhere to the principles of carrying out a readjustment of the structure, insuring key projects, tapping potential, improving returns, doing only what one is capable of doing, and balancing receipts and expenditures, working arduously to develop new sources of revenue and cut back on expenditures. First is the conservation and the building up of sources of wealth. Financial departments should actively support development of short term, low and medium technological level projects that produce speedy economic results for which energy and materials can be assured, that require little investment, and that show results quickly, thereby stabilizing and developing sources of wealth to increase revenues. Continued attention should be given to the task of making counties receiving government financial subsidies raise their level of self-sufficiency, supporting and strengthening the county level economy to increase local financial resources. Second is an expansion of the scope of compensated use of government fund, doing a good job in providing financial credit to increase returns on the use of funds. Full use should be made of compensation received for the use of government funds to provide active support to farming and animal husbandry, to local resources development projects, and to township and town enterprises and projects to help the needy to solve their temporary funding difficulties in industrial and agricultural production, and the provisioning of markets, thereby enabling limited funds to play a better role. Third is intensified collection and management of tax revenues, helping enterprises raise their level of administration. Tax collections must be strictly controlled, methods that violate regulations and transcend authority in providing tax reductions and tax exemptions being looked into and corrected, a good job done in beginning to collect new kinds of taxes, adhering to collection of

taxes according to law, and plugging loopholes to insure the prompt payment into the treasury of tax funds due. Additionally, financial and tax departments should also help enterprises improve their cost accounting and financial work. Advance enterprises' improvement of administration and management, increase production and earnings, reduce expenditures and increase economic returns.

Increases in government revenues during 1989 will go mostly to provide funds needed for wage and price reforms, and for necessary outlays for agriculture, education, and science and technology. Outlays for other projects may be maintained or curtailed as financial resources permit, planning being done as a whole. Expenditures for nonproductive purposes are to be strictly controlled. In order to insure that government financial departments at all levels produce a balanced budget, level-by-level guidelines for controlling expenditures are to be issued, management by objective practiced, strict checks made, no exceeding of the limits permitted. First is strict control over investment in self-funded capital construction using local discretionary financial resources, resolutely calling a halt to ramshackle planning and rushing to get started on projects. All construction projects designated to be halted or postponed as a part of improving the economic environment and restructuring the economic order must be resolutely halted or postponed. Investment in self-funded capital construction in all jurisdictions may not exceed the set amounts. Second is strict control over increases in expenditures for administrative expenses. In 1989, administrative and entrepreneurial units at all levels throughout the province are to promote large scale assignment of responsibility for outlays, and unified administration of personnel staffing and wage funds, rigorously enforcing a system of conference examination and approvals. New additions of agencies and personnel are to be rigorously controlled, no funds disbursed for additional agencies or personnel not approved by staffing committees. Third is better financial budget administration. After local financial budgets have been examined and approved by the provincial people's congress, all jurisdictions and departments are to operate in accordance with the budget. No new expenditures may be added in the course of implementation. The administrative system is to be improved, examination and approval for "a single pencil" being required in strict enforcement of financial and economic discipline.

In financial work, a policy of "control of total amounts, readjustment of the structure, insuring key projects, cutbacks of ordinary projects, and timely adjustment has to be carried out in accordance with the principle of both controlling the total amount of currency and credit, and also promoting steady growth in the building of the economy." This entails readjusting the purposes for which credit is given and optimizing funds use, maintaining some expenditures, curtailing others, retaining maneuverability in the midst of tightening. In the orientation of investment, the emphasis is to be on supporting

the production and purchase of agricultural and livestock byproducts, items needed in the daily life of the people, commodities whose export earns foreign exchange, and the means of agricultural production, as well as meeting fund requirements for construction projects of a productive nature in the orientation of readjustment of the industrial structure. Loans to enterprises that produce second rate, high priced, unmarketable goods, and whose economic returns are poor, as well as to those enterprises that are losing money, and construction projects of a nonproductive nature are to be curtailed and halted. The People's Bank should effect macroeconomic financial readjustments and controls, restructure financial procedures, allocate funds in a timely and flexible way as changes in economic and financial circumstances warrant, doing everything possible to meet the rational need for funds in building the economy.

In order to raise more credit funds, all possible methods should be employed to soak up savings to increase reserves. City and country savings accounts currently account for more than one-third of all bank savings. They are the banks' most dependable, most consistent source of funds. Efforts to soak up reserve savings not only increases credit funds of banks to support economic development, but also can postpone and shift the use of some consumption funds for a curtailment in total social demand. Thus, financial departments should change their service attitude, improve the quality of their service, and do all that is possible to accommodate the masses in depositing savings. Where circumstances permit, substitutions for the issuance of wages and operating of individual checking businesses should be tried out as a means of increasing savings and reducing payments in cash.

At a time when the country is tightening money and funds are in short supply, banks of all kinds and at all levels should actively maintain a cash flow among each other, making full use of geographic and time differences in the availability of funds, and flexibly allocating and transferring funds to ease the conflict between supply and demand. All enterprises are to actively tap internal potential to reduce the amount of funds tied up, and to hasten the turnover of funds. Subject to approval of the People's Bank, enterprises may issue short-term debentures and stock shares to raise circulating funds for a period of a year or less. Banks and enterprises should coordinate with each other to get through their common difficulties, advancing economic development at a time of tightened credit.

#### **6. Full Deepening of Reform for Gradual Building of a New Macroeconomic Regulation and Control System**

In accordance with Central Committee and State Council plans as they relate to realities in Qinghai, the emphasis on economic reform in the province during 1989 is to be on the improvement and development of various reform measures already inaugurated. This will be done in conjunction with improving the economic

environment and restructuring the economic order. The focus will be on increasing effective supply and improving economic returns in the continued deepening of rural and pastoral region reform, perfection of enterprise contract management responsibility systems, and further development of lateral economic links and cooperation. Attention will be given to using the macroeconomic regulation and control functions of departments in overall charge and of economic supervisory departments, and to actively advancing other reforms of benefit in improving the economic environment and restructuring the economic order.

It is necessary to carry out the decisions of the provincial CPC committee and the provincial government with regard to the deepening of rural reform, and the acceleration of agricultural development, as well as the spirit of the provincewide pastoral area work conference, taking firm grip on key points, actively and deftly moving ahead in the second step of rural and pastoral area reform. Rural villages are to continue to stabilize and perfect output related contract responsibility systems, expanding the use in farming counties and in part-farming part-livestock raising counties of a system of "fixing yields for different grades of land, and increasing rewards and lowering penalties." Places having requisite conditions for operations on a suitable scale may operate cooperative farms and family farms. So long as they stabilize "public ownership of pasturelands, contract operations, the prices of livestock, the raising of herds by households that own them," and "collective ownership with contracting of raising of livestock to specialized people," pastoral regions may properly handle the relationship between herdsmen's production autonomy and centralized control, the relationship between decentralized production and plan guidance, and the relationship between individual household operations and centralized service. Pastureland contract responsibility systems must be put in place to put the management, building, and use of grasslands on the path of the rule of law. Stabilization of family operations should serve as a basis for encouraging a specialized division of labor and for production and sales partnerships in the development of a multilevel, multiform rural and pastoral region socialized production service systems in the perfection of the two tier operating system. Continued efforts should be made to perfect farm and livestock product purchasing and sales methods, and preparations made to build grain, livestock feed, and livestock product wholesale markets. A good job needs to be done in rural cash flow, cooperatives becoming producers of, and dealers in, commodities who are responsible for their own profits and losses, for the development of cooperative financial organizations to serve the rural commodity economy.

The main task in the deepening of enterprise reform for 1989 is, first, conscientious implementation of the "Enterprise Code," and the "Bankruptcy Law" to improve the external environment for enterprise operations. Plant manager responsibility systems should continue to be perfected following the principle of a separation of ownership and operating rights. In order to cushion the shock on

society, enterprises that are verging on bankruptcy should do all possible to call for bids, contracting the merger or auctioning of the enterprise as a means of solution. Second is continuation of a good job of the contract management responsibility system's ability to complement, deepen, perfect and develop, and set equitable contract base figures, to honor contract agreements, to maintain relative continuity in contractors, suitably lengthening contracting periods, conscientiously summarizing experiences in contracting, and finding timely solutions to existing problems. Enterprises that do not contract should consider doing so to hasten the pace of contracting. Competitive bidding and total loss risk security contracting should be actively promoted for the gradual establishment of an enterprise competition mechanism, risk system, and limitation system that links closely together the interests of operators and staff members and workers, and the enterprise's earnings to the status of the enterprise's operation, for full arousal of the enthusiasm of both operators and staff members and workers. Third is a genuinely good job of associated reforms within enterprises, putting into effect and perfecting economic responsibility systems, strengthening enterprise management, and reforming the labor personnel system. Attention to enterprises' ability to solve their internal assimilation problems should form the basis for steady pursuit of optimized labor groups for continued advance and perfection of work efficiency-linked methods to overcome enterprises' shortsighted actions, and to increase both enterprises' self-limitation capabilities and their ability to respond to emergencies. Fourth is active exploration of forms of economic diversification, steadily loosening restrictions on operations, and running pilot projects on a stock share system in which public ownership predominates. Small industrial and commercial enterprises should continue to do a good job of lease contract management, some of them conducting auctions, or converting to collective or private operation.

Lateral economic partnerships and economic cooperation should be developed further and support given to enterprise partnerships and mergers to develop enterprise blocs. Mutual benefit should form the basis for encouraging machinery firms and metallurgy firms in the province to make fullest use of their individual advantages for economic cooperation, enterprises in the province being encouraged to take active part in nationwide and regionwide entrepreneurial blocs, and being encouraged to develop entrepreneurial blocs primarily for products and the processing of resources in which the province enjoys an advantage. Attendant policies should be perfected to hasten the pace of opening to the outside world, full use made of funds within the province to make use of the role of presently available talent while simultaneously boldly importing funds, skills, and talent from elsewhere in the country. Active efforts should be made to find partners for further development of inter-province economic cooperation and exchanges of technology, partnerships and cooperation being used to hasten development of the resources in which the province enjoys advantages, and to promote economic readjustment.

Gradual establishment of a new macroeconomic regulation and control system is an important requirement for the sustained, consistent development of the national economy. It is also an inherent requirement for improving the economic environment and restructuring the economic order, and for deepening reform. In the source of improving the economic environment and restructuring the economic order, we must apply economic, administrative, legal, disciplinary, and ideological and political work techniques, and be completely alert in an effort to enhance and perfect macroeconomic control. Serious attention is to be given to the role of economic departments in overall control, and departments in charge of supervising the economy. These departments should coordinate and cooperate with each other; they may not go their separate ways or impede each other. Planning departments should bolster and improve overall national economic balance, their plans being able to regulate and guide the integrated economic development of society as a whole. Banks should fully apply economic techniques, such as interest rates, to control the amount of currency put into circulation, and to regulate the scale and make-up of credit. Government finance and tax departments should apply the economic levers of government funds and tax collections to increase their macroeconomic regulation and control capabilities, and the direction in which enterprises develop. Industrial and commercial, price, auditing, and inspection departments should increase control and supervision according to provisions of the law to do a good job of macroeconomic control, all departments and all units willingly accepting their supervision.

In order to control overall social demand, and correctly channel consumption, other reforms of benefit to improving the economic environment and restructuring the economic order should be actively advanced. It is necessary to develop and perfect the labor market, and to take stock of and curtail the use of labor outside plan, rigorously controlling the mindless flow into cities of rural labor from other provinces and from this province. Economic development should form the basis for the widening of avenues of employment for gradual solution to the increasingly serious unemployment problem, thereby effecting continued improvement in the standard of living of staff members and workers, city and town residents, and peasants and herdsmen. The problem of inequitable distribution in society may be regulated through improvement of the distribution system, and the levying of an individual income regulation tax.

### **7. High Degree of Attention to Science and Technology Education, Actively Serving the Building of the Economy**

Reliance on science and technology is the road that has to be taken for vigorous development of the province's economy. In the source of improving the economic environment and restructuring the economic order in the national economy, the development and promotion to application of advanced applied scientific and technical achievements must be the emphasis of current

work, reliance being placed on science and technology, and on scientific management to bring about the optimization of the industrial structure and improvement in economic returns. Government and enterprise leaders at all levels have to give serious attention to scientific and technical work, steadily increasing their awareness of and sense of urgency about the need to rely on science and technology to develop the economy. A scientific and technical attack should be launched on major problems existing in industrial, farming, and animal husbandry production. More study should be given to both basic theories and applied theories related to the special problems existing in plateau areas. Continued attention should be given to "spark" plans, and to the gradual carrying out of "torch" plans, much work done to produce benefits from the economies of scale and to increase effective supply. Scientific research units should be encouraged and supported in the operation of economics-of-technology entities, leading and contracting with enterprises, or going into partnership to develop technical markets to hasten the commercialization of scientific and technical achievements, to advance the technical transformation of traditional industries and the formation of new technology and high technology industries. A scientific and technical service systems needs to be established and perfected in farming and pastoral regions to provide services before, during, and after production, and to devote attention to the building and development of energy in farming and pastoral areas. Serious attention should be given the improvement of social sciences research, the focus being on coordinated attacks on major problems in reform and construction, taking the lead in exploring and striving to come up with some new scientific research achievements. The "dual opening" policy should be further perfected, fostering and developing scientific and technical along with economic mechanisms for steady rise in the level of science and technology, the better to serve economic construction. The superior service and the contribution to society of scientific and research organizations, and of the mass of scientific and technical personnel can also increase earnings to improve their personal working conditions, and to improve their pay and emoluments.

Economic development depends on science and technology, and scientific and technical progress depends on education. Education has seen very great development in the province in recent years; however, all of the education is backward. It is still not in keeping with the needs of vigorous development of Qinghai. Government at all levels must further improve its understanding of the strategic position of education. In both thought and practice, it must genuinely regard the elevation of the cultural quality of all nationalities a project of vital and lasting importance, placing it in first place in the economic and social development strategy. First of all, educational reform must be deepened to make education consistent with the province's economic development. It should be realized that simultaneous with the institution of a educational system in which "local governments

bear responsibility, and management is exercised at each level," the emphasis being on the local government's responsibility, all jurisdictions should be given greater planning authority and decision making authority in teaching in order to enable them to decide major issues in educational work in terms of local circumstances to lay a foundation for the gradual building of an administrative system in which local governments administer and the schools have responsibility for teaching. Firm attention should continue to be given to compulsory education to hasten the pace in making basic education, vocational and technical education, and adult education part of an organic whole in a gradual change away from the undiversified education mode and the one-sided pursuit of the proportion of students that move up to a higher grade. In places having the conditions, government should take the lead in organizing departments concerned in the step-by-step operation of "prairie fire" plan pilot projects for the purpose of training more medium and elementary level scientific and technical personnel to satisfy the needs of rural villages in order to advance the coordinated development of agriculture, science, and education. Cities should explore new means whereby enterprises and schools can jointly develop vocational and technical education. They should try to increase the teaching authority of institutions of higher learning and secondary technical schools, encourage joint operation of schools, and continue, as circumstances require, to readjust the mix of specialties, and the proportion of subjects at various levels. They should fully tap existing school potential, doing a good job of enrolling students who pay their own way in institutions of higher learning and technical schools, and of delegating teaching to others. They should perfect a system for the assignment of students whereby would-be employers and employees meet each other, both parties selecting each other. They should encourage college and secondary technical school graduate to go to the grass-roots to work in rural and pastoral areas. Governments at all levels should devote conscientious attention to the eradication of illiteracy in rural and pastoral areas, adopting special measures and preferential policies for continued strengthening of and close attention to nationalities education.

In order to promote the development of education, we must insure steady growth in investment in education. During 1989, during a period of great shortage of government financial expenditures for all purposes, not only has the provincial government not reduced, but has made new increases in expenditures for education. Educational expenses for departments in charge of education that are included in the government financial budget amount to 152.35 million yuan, up 19 percent from the early 1988 budget. It is estimated that expenditures for education from other departments will increase. In addition, education expenses outside of budget, such as city and country educational fee surcharges will also increase substantially. Despite the government's efforts, educational outlays remain insufficient. We must improve the whole populace's awareness about and responsibility for

running schools, fully arouse all society's enthusiasm for running schools, and continue to urge that society, collectives, and the masses pool funds to operate schools. The widespread pooling of funds during 1988 to renovate dangerous buildings serves as a basis for the fundamental completion during 1989 and 1990 of the original task set for renovating dangerous middle and primary school building for a gradual improvement in schooling conditions. Institutions of higher education and middle schools should provide outside services for compensation in a planned organized way; middle and primary schools should conduct more work-study campaigns that allow students to come in contact with society and go through tempering, simultaneously remedying the shortage of educational funds. All parties concerned should actively support school chuang shou [0482 2392] campaigns, policies according them assistance and preferential treatment.

It is teachers who are the hope for the development of education. We must continue to buttress teacher education for institutions of higher learning and secondary schools, constantly improving the ideological and professional quality of teachers. All jurisdictions should run good audio-visual education programs, applying television to the fullest for raising the professional level of middle and primary school teachers. Concern must be shown for the study and work of teachers, including teachers in civilian-run schools, continued efforts made to improve their living conditions. The broad masses of teachers should be paragons of virtue and learning, imparting knowledge and educating people. Schools at all levels and of all kinds should place the enhancement of ideological moral character and political education in an important position, devoting earnest attention to school administration, and to the building of school spirit and school discipline. They should strive to improve the quality of education, create a fine teaching climate, and shape a fine ethos of respect for teachers and love of students.

#### **8. Strengthening the Unity of Nationalities in an Effort to Create a Stable Social Climate**

Qinghai is a multinational region in which doing a good job of nationalities work to safeguard the unity of nationalities is a major matter having a bearing on social stability and economic prosperity. People of all nationalities in the province diligently have carried out the party's nationalities policies, gone through thick and thin together, have lived in harmony, and have struggled arduously to make their proper contribution to the building and development of Qinghai. Today, in the course of improving the economic environment and restructuring the economic order, more than ever, we must share a consensus, be completely unified, unflinchingly carry out the spirit of Comrade Zhao Ziyang's 1988 speech to the All-China Award Meeting For Progress in the Unity of Nationalities, and put into practice "Decisions on Further Improvement of Nationalities Work" from the provincial CPC committee and the provincial government. With economic construction



as the central theme, we should fully arouse the enthusiasm of the broad masses of cadres and peoples in nationalities areas for the building of socialism, rally spirit, bolster confidence, overcome difficulties, and strive to develop the indigenous economy and culture to bring about the common prosperity of all nationalities. Full attention should be devoted to the special characteristics of minority nationalities and minority nationality autonomous regions, adhering to preferential policies and not practicing "arbitrary uniformity" toward them. Minority areas should emancipate thinking, broaden their mental horizons, further widen new economic avenues, conduct propaganda and indoctrination about the strengthening of the unity of nationalities and nationalities policies in a pertinent way, employing the great goal of socialist modernization to bring together the masses of all nationalities in the willing safeguarding, consolidation, and development of equality, unity, and mutual assistance among all nationalities. It is necessary to adhere to full implementation of autonomy laws in nationalities areas to insure that all autonomous places enjoy full autonomous area autonomy rights. All departments of the provincial government should make people more conscious of the concept of the rule of law, handle affairs according to law, respecting and supporting autonomous places for all nationalities in carrying out nationalities autonomy regulations and special regulations. It is necessary to make active efforts to train minority nationality cadres and personnel talented in specific fields at all levels, improving the quality of minority nationality staff members and workers. It is necessary to probe realities, investigate and study, keeping well informed at all times about new situations and new problems arising in minority nationality areas, and to teach the masses to take the overall situation into account, to be mutually understanding and mutually accommodating in diligent handling and solution to internal contradictions such as disputes over fine grassy mountain pastures. Cadres and the masses of all nationalities should firmly establish a frame of mind of "everyone needs each other," having confidence and respect for each other, learning from each other, using each other's strengths to remedy weaknesses, and advancing together. Religious policies should be diligently enforced to insure that citizens of all nationalities have the freedom to believe or not to believe in religion, respecting the customs and habits of the minority nationalities. The unity of the motherland has to be safeguarded, the splitist activities of a small number of splitists who created riots in Lhasa not long ago being resolutely opposed. Vigilance has to be maintained against the infiltration of external antagonistic powers and a small number of splitists, safeguarding Qinghai's social stability and the unity of nationalities.

Full use of political advantages in an effort to create a stable political and social climate is an important assurance for smooth fulfillment of the task of improving the economic environment and restructuring the economic order. While devoting attention to economic work, government at all levels should further strengthen the

building of socialist democracy and socialist rule of law, taking a firm stand against all disturbances to safeguard the overall situation of stability and unity. Government at all levels should accept the supervision of the People's Congress and its Standing Committee, sincerely accepting the criticisms, suggestions, and complaints of the people's delegates. People's delegates charged with making inspections are to be received and permitted to make inspections. Government at all levels is to take the initiative in informing democratic parties and groups about important government activities, and principle work, making full use of the role of democratic parties and groups, and of patriots and mass groups having no party affiliation in participating in government, discussing political matters, and conducting democratic supervision. Major policy decisions should be discussed in advance with experts, and the views of delegates from all walks of life heard so that decisions are made scientifically and democratically. Governments should do more to build city and countryside grass roots political organizations in order to consolidate and develop a stable and unified, democratic and harmonious political situation. Serious attention should be devoted to the development among the whole populace of education about situations, and education to spread general knowledge of the law to enhance the concept of the rule of law among the broad masses of cadres and the populace in order to heighten respect for discipline and obedience to the law, and the conscious application of legal techniques. Government at all levels and all departments must take the lead in respecting discipline and observing the law, additionally supporting in every way, and supervising judicial administrative departments in the exercise of their functions and powers according to the law.

A stable social order is a matter about which the masses are extremely concerned. It is necessary to pursue a policy that combines crackdowns, vigilance, control, and building in the active elimination of factions causing instability. Public security, judicial, and investigatory departments at all levels should coordinate closely in carrying out resolute crackdowns against serious criminal and economic offenses, severely and quickly punishing, according to law, criminals who seriously damage social order. Public order is to be tightly controlled, more work done in guarding against threats to security, with responsibility systems put into effect within units, in accordance with the principle of "those in charge bear responsibility," to preserve public order. The power of the broad masses has to be mobilized and organized to effect overall control by improving public order, strengthening control over population movements, and building multilevel networks for mass vigilance against threats to public security in joint maintenance of social order.

Extremely close attention should be paid to the building of socialist civilization, attention to "two civilizations" at the same time being maintained, making them inter-related and mutually advancing. The campaign of the "five points to be emphasized, the four beautifications,

and the three ardent loves" should continue to be carried out in depth and in breadth, and education of all the people in national defense, vocational morality and social ethics should be intensified in an effort to improve the ideological and moral level of people of all nationalities throughout the province, exploring new avenues for ideological and political work under the new circumstances, vigorously encouraging arduous pioneering work, opening up and moving ahead, and building personal devotion in Qinghai. A social ethos of mutual respect, mutual concern, and mutual assistance should be encouraged, a mass campaign for change in prevailing habits and customs being carried out unswervingly in the farflung cities and countryside. It is necessary to persevere in a "two wei orientation" [0357 3634 2455 0686] earnestly carrying out a "twin hundreds policy" [let a hundred flowers blossom and a hundred schools of thought contend], strengthening the restructuring, management and building of cultural markets to promote the healthy development of literature and the arts, thereby enriching the spiritual and cultural lives of the masses of people. A widespread, mass physical education campaign should be launched to develop the province's fine tradition in physical fitness. Outstanding athletic teams should be given scientific training for early achievement. Radio broadcast, television, news and publishing departments should devote serious attention to propaganda for the purpose of bringing order in the economic climate and rectifying the economic order for a full deepening of the achievements won through reform, as well as reporting promptly the suggestions, complaints and criticisms of the masses. In medical and health work, a policy that emphasizes prevention and control should be pursued, a good job done in the prevention and control of local illnesses, attention devoted to both cities and the countryside, more done to build a tri-level rural, pastoral region, and medical treatment health network, and the launching of a widespread patriotic health campaign to improve the people's health.

Planned parenthood to control population growth and improve the quality of the population is a fundamental policy of the country. The province's population has grown very rapidly in recent years. Births are currently at peak stage, and the population situation is rather grim. This must arouse a high degree of serious attention. Government at all levels and the whole people must have a greater sense of urgency and a greater sense of responsibility about controlling the population, linking together control of overall social demand to population control, genuinely strengthening leadership, unswervingly carrying out the planned parenthood policy, and instituting responsibility systems for population management by objective, making population control and planned parenthood work a major ingredient in the assessment of the achievements of governments at all levels. Multiple pregnancies, early marriage, early childbearing, and unplanned births must be resolutely controlled, and greater control exercised over childbearing by the mobile population in society. The swelling of urban populations

must be rigorously controlled, the national increase and the mechanical increase in population being no more than cities are able to bear.

While advancing economic construction, more must be done about environmental protection. All areas, all departments, and all enterprises should do overall planning for rational use of all natural resources, giving extremely close attention to ecological balance, striving to tackle environmental pollution in a comprehensive way, genuinely protecting and improving the ecological environment, creating wealth for the people and creating wealth for posterity.

In accordance with a decision by the CPC Central Committee, the reform of provincial government organs originally scheduled for 1989 is to be postponed; nevertheless, government organs and their staffing must be rigorously examined and approved. At the present time, we must make greater efforts in the building of clean government in order to insure smooth progress in improving the economic environment and restructuring the economic order, and in the deepening of reform. Leading cadres in the provincial government and all departments are to take the lead, serving as models in carrying out a series of clean environment regulations that the CPC Central Committee and the State Council have drawn up. Leaders and those in positions of direct responsibility who commit acts about which the masses are intensely dissatisfied such as abuse of authority for private gain, corruption and taking bribes, stifling manipulation of power, using public funds for entertainment and giftgiving, lavish dining and drinking, and going on trips to different scenic spots are to be diligently investigated and dealt with. Serious bureaucratic behavior, neglect of duty, and dereliction of duty on the part of government workers, particularly leading cadres, is to be rigorously investigated and dealt with.

In the handling of all matters that have a direct bearing on the interests of the broad masses of people, a system must be followed in which the method of handling is open, the results are open, and mass supervision is accepted in order to increase the transparency of government work. A reporting system should be adhered to and perfected, all violations of discipline that the masses report being conscientiously investigated and dealt with, representative cases being dealt with openly. All departments and units should do a good job of clean government education to improve the building of personal character, to raise working personnel's political and ideological level, and to strengthen the political consciousness of the broad masses of cadres in the need to remain clean and to oppose corruption. Investigatory departments at all levels should enforce the law with impartiality, resolutely investigating and handling government workers' violations of the law and infractions of discipline to achieve results in the fight against corruption.

During the period of improving the economic environment and restructuring the economic order, both the



government and the people should be mentally prepared to go through several years of privation. Located on the Tibetan Plateau where conditions are relatively arduous, the people of this province will have to rely both on development of the economy to improve the standard of living of people of all nationalities, and on the firm establishment of a psychology of arduous struggle, hard work and thrift, resolutely opposing extravagance and waste, and willingly suppressing overly high consumption expectations. Specifically, governments at all levels must act as an example and serve as a model. They must also explain clearly to the masses the objective reasons for the period of privations, being confident that the broad masses can understand and lend support. Leading cadres and working personnel at all levels should truly establish a concept of public service, earnestly improve leaders' work style and work methods, delve into realities, do more practical work, serving the people with one heart and one mind.

Delegates! Although we are facing quite a few problems and difficulties at the present time, these are problems that occur in development, and difficulties that occur in moving ahead. So long as people of all nationalities in the province unite as one, are of one heart and one mind, and pool their wisdom and efforts we will certainly be able to get through these difficulties together and win real achievements in improving the economic environment and restructuring the economic order, and in deepening reform, our outstanding achievements serving to hail the 40th anniversary of the founding of the People's Republic, and continuing to propel the socialist modernization of Qinghai.

#### **Vice Governor Outlines Economic Problems, Tasks**

90OH0045a Guangzhou NANFANG RIBAO in Chinese  
4 Oct 89 pp 1, 3

[Interview with Guangdong Vice Governor Zhang Gaoli 1728 7559 7787 by Correspondent Huang Jingtang 7806 6975 2768; date, place not indicated: "Adopt Decisive Measures To Promote Guangdong's Economic Development: Vice Governor Zhang Gaoli Answers Questions from Our Reporter Concerning the Control and Consolidation Program"]

[Text] The effort to develop Guangdong's production faces major difficulties and a grim situation. To provide the broad masses of cadres and workers of the province's industrial, communications, and construction fronts a correct and unified understanding of the difficulties we face and to get these individuals truly to mobilize, adopt decisive measures, struggle through these difficult times, and enable Guangdong's economy to continue to advance, Zhao Gaoli, vice governor in charge of provincial industrial and communications production and capital construction work, recently agreed to an interview with our correspondent, Huang Jingtang, providing the following responses:

[Question] How is Guangdong's production developing? How do we interpret our current difficulties?

[Answer] On balance, industrial and communications output during the first 8 months of this year managed to continue stable growth amidst moderate deceleration. Gross industrial output value rose by 21.93 percent over the same period last year, which is much lower than the 35 percent growth posted last year. It appears that industrial growth during the fourth quarter will slow even more, and it is predicted that gross industrial output value for the entire year will exceed 100 billion yuan, for an increase of about 17 percent over last year, which is higher than the expected national growth rate. Capital construction, too, is going well. Of the 35 planned key construction projects, 15 partially or fully went into operation and all the projects are expected to be completed on time.

Nevertheless, the effort to develop Guangdong's production faces major difficulties and numerous problems, notably the decline in output since July and August, to which people have responded in two ways. Some comrades believe the decline constitutes a slump, are overly pessimistic, and lack confidence. Others believe that the problem is not too bad, view the grim situation too optimistically, and are muddle-headed. Neither of these views, I believe, is correct. We should recognize that the fact that we have been able to stabilize Guangdong's industrial-communications growth rate at around 17 percent and to bring last year's excessive growth down indicates that the control and consolidation program is beginning to take effect. Overall, this is normal and does not constitute a slump. But neither should we pat ourselves on the back over our success during the first 8 months of this year and take our difficulties lightly. For as the economic environment changes, enterprise operational turnaround will correspondingly diminish. Even more importantly, contradictions that have mounted in our economic work have grown ever more glaring, and future problems and difficulties will be even more severe. A slump is possible if we fail to take the problems seriously and to adopt decisive measures to resolve them.

[Question] What are the major difficulties and problems affecting the development of Guangdong's production?

[Answer] Briefly, they are the old contradictions, problems, and difficulties constraining development that we have failed to alleviate and the new problems that are cropping up. It is fair to say that things are getting more and more difficult with each passing month and that next year will be even tougher than this one. First, Guangdong's infrastructure and basic industry are very weak, while there is too much unproductive construction, and processing industry has expanded too fast. Structural contradictions in industry, such as irrational resource deployment, are salient. Second, there are shortages of electric power, funds, raw materials, and communications and transport capacity. For electric power, for example, supply is about 40 percent below

need. Yet even with such great shortage, unproductive power use, such as for office buildings, halls, and guest-houses, has mushroomed in the past several years, with tremendous impact on productive and residential use. As for funds, though it was estimated that an additional 6.4 million yuan in working capital would be needed this year, only 990 million yuan were provided during the first 8 months. And the tight situation has been compounded by interest rate hikes, severe "triangular debt," and sluggish turnaround of enterprise funds. Third, consumption has contracted, markets fluctuate widely, and slow sales and overstocking of some goods has become severe. During the first 8 months, state industrial enterprises included within the state plan used 69.9 percent more finished product funds than during the same period last year, and some firms have suspended or semi-suspended operations. Fourth, many enterprises are poorly run; management is bad; and faced with retrenchment, readjustment, growing external difficulties, and mounting burdens, firms have been unable to improve operations so as to improve their ability to respond and adapt, so more and more enterprises are suffering losses. During the first 8 months, in-plan state industrial enterprises registered 27.73 more losses than they did during the same period last year. Fifth, although fixed capital investment has been brought under control to some extent, there is insufficient balance and great discrepancy therein. Some enterprises remain keen on expanding their operations by increasing inputs and expanding production through an extensive approach, while there is little movement toward intensive-based expansion through reduction in energy and raw material consumption, improving management and economic results, and tapping potential. In addition, society-wide macroscopic regulation remains weak, some localities still blindly add investment projects, and fixed capital investment volume has yet to be fully controlled. Sixth, enterprise burdens are mounting, and firms' ability to bear up is declining. During the first 8 months, the comparable per-unit costs of in-plan state industrial enterprises rose by 26 percent over the same period last year. And imposition on firms of arbitrary fees and exactions, though proscribed, remains unchecked.

The above are existing problems. There may be even more, unanticipated difficulties and problems in the future. We must have a correct and truly unified understanding of this state of affairs; jettison all irresolution and wait-and-seeism; hunker down and adopt decisive and effective measures; and, while completing and exceeding this year's productive development tasks, strive to lay a good foundation for the continued, stable development of production next year.

[Question] What areas of work do you, Sir, believe we must attack and complete in the future?

[Answer] First, we must summarize experience and lessons and firmly establish a practical guiding ideology for developing the economy. The "rash leaps" and "overenthusiasm" that have occurred several times in our history required subsequent readjustment, and the

major lesson therefrom is that failure to proceed from practical reality and to stay within ourselves as we strive to develop our economy and failing to take into account conditions in and the strengths of our country is haste makes waste and creates tremendous loss and damage. In the future, we must fully acquaint ourselves with national conditions, difficulties, and constraints and plan productive development in a rational way, in accordance with conditions in and the strengths of the province, the city, and the county.

Second, we must strengthen macroscopic regulation and control, as well as stress restructuring of industry and output throughout the province. This is both an urgent task for the restoration of a salubrious cycle in Guangdong's economy and a strategic task in the long-term stable development of our province. We must resolutely curtail fixed capital investment. And, while firmly limiting and weeding out some products; closing, suspending, amalgamating, or retooling enterprises that are wasteful, show poor economic results, or severely pollute; and strictly controlling township, town, and individual firms, we must place special stress on energy, communications, key raw material, and other infrastructural elements and basic industries. On this basis, we must effect transformation and develop a number of export enterprises and production bases and vigorously develop externally-oriented economy.

Third, we must attack weak links and strengthen control and coordination. This includes striving to provide circulating funds urgently needed for production purposes, stressing arrangement of coal allocation, getting power generating equipment on line on schedule, ensuring stable and plentiful supply of electric power, setting production according to sales, broadening marketing channels, aggressively marketing overstocked goods, accelerating fund turn-around, and using every means possible to produce major raw materials and ensuring supply thereof to production operations. While being attentive to current production, over the next several months we must promptly complete preparations for next year's production. We must not gobble up funds and raw materials all at once. Instead, it would be better if we reduce this year's output growth a tad so as to leave a little leeway and to avoid creating greater pressure and difficulty for next year.

Fourth, we must continue to promote all reforms, including managerial contract responsibility; aggressively implement the two increases and savings; and strive to improve economic results. All enterprises must abandon the old habits and practices they developed in response to old conditions and that are unsuited to the new situation; not extravagantly expect to escape from their predicaments by begging superiors for money, material, or preferences; and truly use their own resources to overcome difficulties by focusing attention internally, on tapping potential, improving management, increasing earnings, cutting costs, and struggling through these difficult times.

Fifth, we must give full play to the role of the party and conscientiously strengthen ideological and political work within enterprises. Principally, ideological-political education provided to enterprise employees should include upholding the four cardinal principles; opposing bourgeois liberalization; and unifying, on the basis of the spirit of the 4th Plenary Session and of the important speeches by Comrade Deng Xiaoping, the ideology of the broad masses of cadres, workers, and staff. We must educate enterprise employees in socialism, patriotism, arduous struggle, professional ethics, wonderful future, observing discipline and law, the need to tighten our belts for a few years, and mobilize the enthusiasm of the broad masses of cadres, workers, and staff for contributing to the effort to ward off a slump and to ensure stable and coordinated economic development.

### Retail Sales Falling, Prices Dropping in Tianjin

OW2210095289 Beijing XINHUA in English  
0848 GMT 22 Oct 89

[Text] Tianjin, October 22 (XINHUA)—Since the beginning of this year, sales of domestic appliances and durable consumer goods have plummeted, and retail prices are dropping every month, according to the Tianjin Statistics Bureau.

Economists think that the apparent change indicates that Tianjin has won initial success in improving the economic order and put an end to the phenomenon of overheated economy and excessive consumption.

Han Qixiang, spokesman for the bureau, explained that the scale of fixed assets has been controlled. From January to September there were 454 construction projects less than the same period last year. The investment in fixed assets of state-run enterprises has increased only 3.1 percent. The investment in manufacturing has increased by 12.1 percent while that in services has dropped 20.5 percent.

In the meantime, bank loans and the money supply have been brought under control. As a result of less investment in fixed assets and less loans for rural industries, the total bank loans were cut by 380 million yuan as compared with the same period last year.

The increase rate of wages and other government expenditure on individuals has also dropped slightly.

As the overheated economy has been brought under control, industrial and agricultural production is increasing steadily. The gross value of industrial output increased 5.7 percent in the first 9 months. The growth rate of heavy industry has been up while that of light industry has been falling down.

On the other side of the economy, Han Qixiang said that market slump, the increase of stock of goods and shortage of funds have led to the decrease of industrial production, economic returns and government revenue.

## FINANCE, BANKING

### Types, Effects of Fund-Raising in Society

HK1209022189 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, 1989 pp 72-74

[Article by Ha Lixin 0761 4539 2450 of the Xian Branch of the China Industrial and Commercial Bank: "Problems of Fund-Raising in Society" April 1989]

[Text] Following the implementation of a series of policies aimed at macroeconomic regulation and control, tightening money supply, and so on, the imbalance between the supply of and demand for funds in society has become extremely acute. From this situation has erupted the "fund-raising fever" on a national scale. The scale of fund-raising is expanding, as do the amounts involved. On this question, there are two diametrically opposed points of view among the theoretical circles. In this article, I will attempt a simple analysis of the forms and effects of fund-raising in society, as well as measures to be adopted in this connection, for discussion.

#### I. The Principal Forms of Fund-Raising in Society

There are diversified forms of fund-raising in society, each with its own objective and method of going about it. Briefly, there are the following principal types:

*A. Share issue.* There are three forms of share issue. The first involves issuing shares for subscription by staff and members of the same unit. The second involves issuing shares for subscription by members of the same locality. The third involves issuing shares for interregional subscription. The purpose of all these forms of share issue is to enlarge the scale of production. In all three cases, shares are issued for open subscription by enterprises and individuals with the authorization of the People's Bank of China or other departments when a project has been approved but fails to raise sufficient capital. This form of fund-raising is attractive because of its high interest rate and dividends.

*B. Bond issue.* This mainly refers to the issue of various types of bonds by local governments or enterprises for subscription by enterprises or urban and rural inhabitants to raise funds for the development of the local economy or for enlarging the production capacity of enterprises.

*C. Joining an enterprise with capital.* Staff and workers recruited by or transferred to an enterprise are required to pay a given sum before joining. Another form is fund-raising among laborers. If a township or small town intends to start a construction project but is short of funds, it may mobilize those who are going to be involved in building or running the project to advance a given sum with the promise that principal and interest will be paid back to them by installment after the project has been completed and put into production and is

making profit. This form of fund-raising can provide people with job opportunities besides offering interest and dividend payments.

*D. Fund-raising in the form of advance payments.* To solve the problem of housing shortage, a unit may mobilize or require its staff and workers to advance a given sum for housing construction. After completion, the flats will be sold to all those who have advanced the money. In enterprises where all-partner mortgage contracts for risks is practiced, the leadership, staff and workers are required to pay risk mortgage for use as circulating funds for production and operation.

## II. The Positive Effects of Fund-Raising in Society

Fund-raising in society is the swift and logical microeconomic response of enterprises to the tightening of macroeconomic control by the state. In an environment where there is a unitary channel of finance and where money supply is tight, the needs of enterprises for more funds cannot be met. Under this backdrop, planned fund-raising under leadership can widen the channels of finance and diversify credit. In particular, this will have a positive effect in ameliorating the problem of funds shortage which confronts enterprises and in reducing the credit pressure on the banks.

A. Fund-raising by enterprises is an important means for enterprises to raise investment capital. It can help solve the problem where normal production or construction is affected by the shortage of funds on the part of the banks and the state. Basically, as long as funds are raised in a planned way, the pooling of scattered idle funds in society for production projects approved by the state will only lighten the burdens of the state and invigorate the economy. Besides, there is no conflict between planned fund-raising and the objectives of the financial departments in absorbing savings deposits and concentrating funds for the development of the commodity economy.

B. Fund-raising can guide the pattern of consumption. In recent years, the income of urban and rural inhabitants has increased markedly. From this has grown an abnormal pattern of consumption. The pooling of idle funds in the hands of inhabitants for purposes of production and construction not only will guide consumption and restrict the unchecked growth of consumption funds, but will also reduce spilling consumerism and ameliorate the imbalance between the supply of and demand for consumer goods.

C. Fund-raising can enhance the sense of risk and self-restraint of enterprises and investors. Fund-raising by enterprises, from the raising of funds to repayment, bears a heavier economic burden than interest rates for ordinary bank loans. It is also subject to additional terms agreed upon at the time the funds were pooled, as well as the responsibility of safeguarding the unit's good name. In particular, it has to bear the risks of investment. After raising funds, the enterprise will have a greater sense of "indebtedness." It will do its best to make proper use of

the funds, and strive to achieve results as quickly as possible. Moreover, efforts to combine the interests of the enterprise and the interests of the staff and workers (investors) through such means as joining an enterprise with capital and fund-raising in the form of risk mortgage will increase the unity and cohesiveness of enterprises. This will spread the risks of investment, and enhance the sense of risk and self-restraint of the enterprises and investors in their endeavor to improve management and achieve better economic results.

## III. The Negative Effects of Fund-Raising in Society

Apart from share and bond issue which requires authorization from the People's Bank of China, fund-raising activities of enterprises are generally not subject to government control. As seen in some enterprises, funds are sometimes raised to finance technological transformation and expansion projects and sometimes raised to increase circulation funds. The duration may last as long as 3 to 5 years or as short as a few months. Sometimes investors have a choice, but sometimes they are forced to subscribe on a per capita basis. Interest rates are very mixed. Thus, fund-raising in society has some very worrying hidden dangers.

A. It tends to increase investment in fixed assets and weaken macroeconomic regulation and control by the state. Results of investigation indicate that most funds raised by enterprises themselves are not rationally expended, with a large proportion being invested in fixed assets, particularly in nonproductive projects. According to investigations conducted in Shaanxi, Henan, Sichuan and other provinces, the proportion is as large as 60-70 percent. Because enterprises can bypass the macroeconomic constraints of the state by raising their own funds, projects that should have been cut or halted can still survive. Under the present circumstances where the state is under financial pressures and where goods and materials are in short supply, the imbalance between total supply and total demand will no doubt be aggregated. This will make it difficult to implement the policy of macroeconomic retrenchment and will add to the pressures of bank credit. Moreover, fund-raising will also make the readjustment of the economic structure difficult. Enterprises that perform well are raising funds. Enterprises that perform poorly are also raising funds. The fact that the time limit, interest rates and investment direction of funds pooled from society are not scientifically proven and the banks are not in a position to exercise effective supervision over fund-raising activities will inevitably exacerbate overheated economic growth and abnormal economic development. This is particularly true with some of the inferior products, or products that should have been eliminated, for they can continue their unworthy existence thanks to the "blood transfusion." This is not conducive to the readjustment of the industrial structure and the product mix, and will weaken the positive effect of the credit squeeze by the state.

B. It tends to adversely affect bank savings deposits and weaken the regulatory function of bank credit. Funds

pooled from society mainly come from the surplus of employees' earnings and funds set aside for consumption. Fund-raising is either the direct transfer of savings deposits or the diversion of the source of savings. In order to subscribe shares or answer calls for fund-raising, residents have to withdraw their savings from banks. This will aggravate the shortage of bank deposits covered by the state plan and increase funds in society not covered by the state plan. Investigations conducted in Shaanxi, Sichuan and other places indicate that more than 60 percent of funds raised are transferred from bank savings deposits. As a result of the decline in bank deposits and the reduced source of credit funds, the already limited funds in society are diversified and the regulatory function of bank credit is lost.

C. It tends to increase the cost expenditure of enterprises and divert state revenue. A common feature of various forms of fund-raising in society is high interest rates and dividends. As stipulated by the state, interest rates on funds pooled from society cannot exceed 40 percent of the current interest rates for bank savings deposits. In actual practice, however, they are 100-200 percent higher. As a result, the cost expenditure of enterprises is increased. By turning profits into dividends and paying out high interests, enterprises can avoid payment of bonus tax. Besides, since the high interests and dividends are usually paid before tax, state revenue is inadvertently diverted. Moreover, an increase in cost expenditure will adversely affect efforts on the part of the enterprises to achieve better economic results and will increase the possibility of a price hike.

D. It tends to encourage the excessive growth of consumption funds. From the angle of distribution, fund-raising which offers a high rate of interest and dividends can turn the results of operation into employees' welfare and increase the personal income of staff and workers in a disguised way through the distribution and redistribution of profits on investment. From the angle of usage, the fact that a considerable portion of the funds pooled are expended on the construction of above-standard dormitories and the purchase of commodities subject to state control has an adverse effect on the consumer market.

E. It tends to disrupt the economic order and worsen the vicious cycle of cash circulation. Due to shortfalls in management, not all fund-raising activities are reported to the authorities. Some of these are approved by banks, while others are approved by departments in charge of the enterprises concerned. Some are bound by regulations while others are not. Each exercise of fund-raising has its own say as far as usage, dividends, interest rates and bonus payment are concerned. People pooling funds can be workers, peasants, businessmen, students or soldiers. This situation is bound to have an adverse effect on economic development. First, through the massive pooling of funds, enterprises are able to operate at an overload. This will increase the risks of enterprises and investors. Second, because interest rates and dividends for funds pooled are soaring and the price of funds is on

the rise, it is very difficult to establish a normal financial order. Third, due to the lack of clearly defined areas of responsibility and authority, more and more disputes will crop up. Fourth, because fund-raising is tied with the allocation of living quarters, job recruitment and wages, the pooling of funds has become a compulsory exercise. People are simply assigned a quota and the money will be taken from their wages at a low interest or with no interest at all. This is beyond the endurance of staff and workers and will add to the factors for social instability.

At present, the bulk of the source of funds pooled by enterprises comes from personal savings, and enterprises operating with funds pooled from society tend to settle payments for purchases, sales and dividends with cash. This will greatly increase the flow of cash in the market, increase the money supply and add fuel to inflation. On the other hand, the fact that some enterprises are drawing excessively from their business proceeds and misusing the funds of other units in their attempt to avoid cash control by the banks has added to the factor of cash insecurity. This will weaken the functions of the People's Bank in regulating money flow and maintaining currency stability.

#### IV. Measures for Blocking and Guiding Fund-Raising in Society

Fund-raising is an indispensable form of finance and has a considerable role to play in promoting the development of the economy. In order to achieve its own objectives, an enterprise may, in the light of objective reality, mobilize its own staff and workers to contribute funds or pool funds from other units or individuals. The drawbacks revealed in fund-raising activities are not the inherent faults of this form of finance. We can only provide guidance and should not just criticize.

A. We should establish a unified mechanism of management. Since the state has already promulgated regulations for the management of shares and bonds, enterprises issuing shares and bonds must abide by these regulations. In particular, government departments must back up the banks in carrying out unified management in the following areas: First, all forms of fund-raising must be reported to accredited People's Banks for unified examination and approval. Local governments and departments in charge of the enterprises concerned should not have the power to approve such requests. Second, enterprises must use the funds pooled for the stated purposes only. Specialized banks should supervise the usage of these funds in conjunction with the People's Bank. Third, the interest rates and dividends payable to funds pooled should be allowed to float within a base line and ceiling set by the People's Bank. To guarantee state revenue, expenses incurred in the payment of interests and dividends over and above the bank interest rate cannot be included in the cost of production. Dividends should be paid after tax out of retention funds. Fourth, share and bond issues may be arranged in a unified way by banks handling the accounts of the enterprises concerned. Other forms of fund-raising may be organized by

the enterprises themselves or through banks. Funds pooled must be deposited into bank accounts in accordance with cash control regulations, and payments and usage should be subject to supervision. The People's Bank and the departments concerned should make haste to work out specific methods of management. The banks should have the power to fine or penalize those enterprises that do not abide by regulations in their fund-raising activities.

B. We should improve on the organizational procedures. Fund-raising activities must be carried out in an organized and planned way in accordance with policy and legal provisions. In particular, we should, on the basis of upholding the principle of voluntary participation, lay down fund-raising rules and regulations or sign contracts in order to clearly define responsibility, authority and interests, jointly bear all economic risks, and standardize and institutionalize the work of fund-raising.

C. We should make scientific estimates of the endurance of society and the enterprises concerned. Before they start raising funds, enterprises must carry out market surveys, project evaluation, verification and analysis of economic benefits, and feasibility study. The banks must give more specific guidance to fund-raising, correctly decide the scale and amount, and choose the right direction of investment. In order to strengthen effective management and prevent excessive fund-raising in society or within enterprises, we should first make scientific estimates of the endurance of the staff and workers in the enterprises or regions where fund-raising is to be carried out. The estimates should take into consideration the following five factors: First, the surplus purchasing power of urban and rural inhabitants and staff and workers and the cash in their hands. Second, the increase in personal income and increase in household consumption. Third, the base line of the special funds and the materials and funds potential of the unit concerned. Fourth, total profits retained after tax. Fifth, the future development of enterprises and returns on investment. As long as scientific budgeting and decisionmaking are carried out before fund-raising actually commences, rash actions and mistakes can be avoided.

D. We should monitor and limit the amount of funds raised. In order to strengthen the macroeconomic control of funds, funds pooled by enterprises should be included in the overall credit plan and the amount of credit to be extended to an enterprise should be reduced in proportion to the total amount of funds raised so as to maintain an overall balance. In order to bring fund-raising into the orbit of bank credit, suitably limit the amount of funds raised, invest the funds properly and achieve remarkable results, it is necessary for the banks and the departments concerned to monitor and limit the amount of funds raised.

E. We should guide the transformation of fund-raising into the shareholding system. Government departments at various levels and the banks should help introduce a

mechanism of the shareholding system into enterprises, gradually improve the mechanism of management, straighten out the relations between the government, enterprises, banks and members of the units concerned in the distribution of benefits, and enhance the self-restraint of enterprises in order to promote the development of the economic structural reform in depth and in breadth.

### Commentator Discusses Problems in Clearing up Debts

40060750 Beijing JINRONG SHIBAO in Chinese  
12 Sep 89 p 1

[Article by Mou Ling 3664 7881: "An Overall Point of View Is Needed To Clear Up Debts"]

[Text] Although 1989 is more than half over, the issue of enterprises being in difficult positions because they are behind in their debt payments has certainly not been resolved. Even though quite a lot of "talk" has been heard recently about clearing up debts, very little "action" has actually been taken. Why has it been so hard for enterprises to loosen their chains of debt?

Is it that enterprises do not have the money to pay their debts? It seems that this is not the whole problem. China's inland areas were 1.35 billion yuan behind in their repayment of loans for imported grain to port cities by the end of July 1989. After the State Council explicitly ordered all areas to pay these debts immediately and organized its personnel to go in person to the major debt sectors to "supervise the payments" in August 1989, all areas quickly paid 420 million yuan of these debts in less than a month after being "dunned" just once. This shows that enterprises do have the money to pay their debts.

Is it that enterprises do not have potential funds that they can tap? This is not the problem either. For instance, although China increased its grain loans to enterprises considerably in 1989, the debt trend certainly did not slow down. An analysis by the departments concerned found that in addition to increased reserves, higher procurement prices, and subsidies that public finance should have allocated but did not, the debt trend was also due to a considerable part of these loans being misused. Agricultural Bank statistics show that grain enterprises in a certain county in Jiangsu Province had misused over 7 million yuan, or more than 14 percent of the bank's grain loans up to the end of June 1989, by investing in fixed assets, giving individual pay advances to staff members and workers, investing abroad, public fundraising, and apportioning. Moreover, debts owed by individual staff members and workers accounted for a considerable percentage of the misused funds in both grain and other enterprises. Over 20 million yuan of overdue debts was once recovered from one county in Hebei Province alone. So it seems that enterprises do have potential funds that they can tap.

Is it that enterprises are not worried about their debts? That is not completely realistic either. Some enterprises

cannot help being worried about their debts since they are not only short of money to begin with, but have to "serve" their creditors several meals a day in addition.

Why are enterprises unwilling to pay money or actively tap potential funds when they are able to so? It seems that the key issue is one of understanding.

Although it cannot be said that being behind in paying grain loans is not a serious matter, arrears between provinces on grain that is ordered by localities or subsidized by local finances seldom occur or are not large, and serious arrears on grain loans occur only between in land areas and port cities. This contrast reflects the following attitude: Although the money is available, since the grain that comes from port cities is allocated by the state, you and I may owe, but the debts all belong to the state, which will have to pay them eventually. Consequently, when money is tight, those who have none "naturally" do not pay their debts, those who have money "fish in troubled waters" by owing and falling behind where possible and, in any case, no one "loses." Many such phenomena still occur. Some areas take the clearcut stand that they will not clear up their debts unless they are granted money and will clear up only as much of their debts as the money granted to them will cover. Some areas even put up "loss" notices that they will clear up only their provincial debts while putting those from other provinces aside to be considered only after the money circulates within their province. Some banks ignore discipline in settling accounts, deliberately procrastinate and refuse to redeem vouchers, risk other people's money, block exchange channels, and make it hard for people to get paid. What is lacking is precisely an overall point of view and an attitude of daring to sustain losses.

It is a fact that there are potential funds to be tapped even though money is tight and it is certainly not unrealistic to call for conscientious efforts to be made to clear up debts. But it is still necessary to show some style and a spirit of socialist cooperation at key times and dare to sustain losses. Zhou Zhengqing [0719 2973 1987], vice president of the People's Bank of China (PBOC), pointed out in a recent statement that clearing up debts is absolutely not a problem that can be settled by any one enterprise, and that it will require not only policies and means, but even more so an overall point of view, awareness, conscious activity, and discipline. This can be said to have hit the nail on the head. Thus, what is now needed most is first a change of understanding from the attitude that, "Other people want me to clear up my debts" to one that says, "I want to clear up my debts." The change that is needed is to a better overall point of view and an attitude of daring to sustain losses.

Banking, commercial, and foreign economic relations and trade departments recently organized a joint effort to clear up arrears on imported grain payments. They took steps to spur grain departments in all areas to raise some of their own money, the Industrial and Commercial Bank of China to settle some of the fund and loan problems, and the PBOC to invest some starter funds, and took a stand to

arouse diversified fundraising initiative and improve the awareness of all units to clear up their debts. It was learned recently that this clearing up of grain loan arrears enabled areas, such as Beijing, to require no further funds because the state had increased its loans, and also enabled other provinces and autonomous regions to settle some of their own fund problems. This has undoubtedly set a good precedent for a future large-scale clearing up of debts. The "losses" that might be sustained by this method of looking inward, relying on tapping potential funds, and asking for less money from the state will be advantageous primarily to the "losers." What is needed now is precisely this spirit of "daring to sustain losses."

Taking clearing debts as main focus, the enterprises should take initiative and do everything possible to squeeze out the money to clear up their own debts, and local governments and banking and finance departments should actively help by increasing subsidies. Shifting one's troubles onto others and considering local interests alone can only lead to more debt and, if continued, would make it hard to escape the peculiar trap of "having to clear up debts again and again."

## INDUSTRY

### Hunan's Heavy Industry 'Develops Quickly'

HK0809114589 Beijing RENMIN RIBAO in Chinese  
3 Sep 89 p 4

[Report by Zhu Yuan 2691 0337: "Hunan Quickly Develops its Heavy Industry"]

[Text] Over the past 40 years since liberation, by relying on its own efforts and through hard struggle, Hunan Province has established a number of new industrial departments and key enterprises. Its gross output value of heavy industry increased by 58900 percent over 1949, making up 54.7 percent of the province's gross industrial output value.

Before liberation, Hunan's industrial basis was very weak. The gross industrial output value of the province was only 318 million yuan, of which the output value of heavy industry was 54 million yuan. In developing its heavy industry over the past 40 years since liberation, Hunan has always attached great importance to the development of energy, raw materials, and aid-agriculture industries. In coal production, it has found a coal deposit of more than 3 billion tons, thus breaking the convention that "there is no coal in the south of Changjiang." In 1988, it produced 35.61 million tons of coal, and the installed capacity of its power industry was increased from 13,500 kw before liberation to 4.61 million kw, or 3008 percent over 1949. Over the past few years, with the vigorous support of the state, Hunan has firmly grasped the construction of two hydropower stations (the Dongjiang Hydropower Station and the Wuqiang Hydropower Station), two thermal power plants (the Leiyang and the Yuyang Thermal Power



Plants), and one electric power transmission line (the transmission line between Gezhouba and Zhuzhou). After these projects are completed, the power industry in Hunan, which has been backward for a long time, will be greatly improved.

In the raw materials industry, the stress has been laid on the development of the ferrous and nonferrous metals industry, the chemical industry, and the construction materials industry. Before liberation, Hunan only produced 3,000 tons of iron a year. At present, in the fields of steelmaking, iron smelting, steel rolling, metal production, and ferroalloy, the province has a respective annual production capability of 1.42 million tons, 1.44 million tons, 1.43 million tons, 33,000 tons, and 156,000 tons. The manganese mining of this province makes up one-third of the national total. The Xiangtan manganese mining area is the largest manganese production base in our country. Hunan is honored as the "hometown of nonferrous metals." In this respect, it has a comprehensive superiority in prospecting, design, construction, mining, ore dressing, smelting, processing, scientific research, teaching, and other fields. The output and export volumes of its 6 mines are the first in our country, and the output of 10 nonferrous metals are in the second place.

Hunan's petrochemical industry has also been developed since liberation. Now there are 12 industries in this field, including petroleum refining, petrochemical production, chemical mines, basic chemical industrial materials, chemical fertilizer, pesticides, three major synthetic materials, chemical industry, inorganic salts, rubber processing, and chemical industrial machinery, capable of producing more than 700 petrochemical products. The engineering industry of Hunan has also developed over the past decades. Before liberation, there were chiefly repairs and spare parts industries in this province, without the ability to manufacture. But now the engineering industry has become a pillar industry in the province, capable of making use of the local superiority to produce all kinds of products, such as electrical appliances, railway machinery, mining machinery, transport and lifting equipment, construction machinery, textile machinery, and small farm machinery.

The continuous development of heavy industry has promoted the formation and development of various central cities in Hunan Province. Changsha, Zhuzhou, and Xiangtan have become industrial cities specializing in the production of raw materials and machine building; Yueyang has grown into a petrochemical industrial city; Hengyang has become a center for producing farm machinery; Loudi and Lengshuijiang have both developed into energy and raw materials production bases; and Chenzhou and Zixing have both become energy and nonferrous metals production bases. After making a readjustment in the industrial structure, Hunan's superiority in heavy industry will be further brought into full play, which will vigorously promote the continuous, steady, and healthy development of the national economy in this province.

## FOREIGN TRADE, INVESTMENT

### Western 'Passage' for Opening Up to the Outside World

40060702 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 31, 31 Jul 89 pp 15-16

[Article by Wu Guoqing 0702 0948 3237: "China Opening Up A 'Western Passage' to the Outside World"]

[Text] China is now opening up a "western passage" to the outside world through its western territory, and doing so with utmost zeal and "full steam ahead" to make up for time lost in the past.

### Seeking a Solution by its Own Means

The western territory of China comprises the area of the 11 provinces and regions of Shaanxi, Gansu, Ningxia, Qinghai, Tibet, Inner Mongolia, Sichuan, Yunnan, Guizhou, Yinchuan, and Guangxi, covering 6.15 million square km, or 64 percent of the country's total area. Its population is about 300 million, and includes 48 ethnic minorities.

The western territories are abundant in natural resources. According to statistics, most of China's over 3 billion mu of useable grassland and five large natural pastures are located in the western territory. It has also 600 million mu of forest land and several times that bare hills and sandy land suitable for afforestation. It has over 400 million mu of arable land and over 300 million mu of wasteland suitable for farming, indeed a vast area for the development of agriculture, forestry, and animal husbandry. The western territory is also rich in mineral resources. There are over 140 kinds of proven mineral resources, which constitute over 90 percent of all proven mineral resources of the whole country. There are very considerable prospects here for the development of petroleum, coal, and water resources.

Since the 1950's up to now, the Chinese government has invested over 230 billion yuan in capital constructions in the western territory. Some of the major provinces have over 480 large- and medium-sized enterprises, active in such areas as sources of energy, metallurgy, machine building, electronics, petroleum, chemical engineering, aeronautics, and spaceflight, representing an economic basis and developmental potential of considerable dimensions. However, due to various factors, some historical and some natural environment, the area has still to this day remained somewhat backward.

However, in the past, China's western territories have been political, economic, and cultural centers of China during the times of the Qin, Han, Sui, and Tang Dynasties, experiencing glorious and brilliant eras. There was in particular the "silk road" over the long distance of over 7,000 km, linking the continents of Europe, Asia and Africa. The Northwest has also 10 ethnic groups, of



which almost 10 million are of the Islamic religion, who maintain numerous ties with the Muslims of the Middle East.

With the advent of the 1980's, the movement for reform and opening up to the outside world spurred the western territory on to a developmental strategy of "getting involved in the East, extending interests beyond the West, orient development toward both directions." This means, on the one hand, benefiting from the imported technologies and capital of the eastern regions along the coast and developing an external-oriented economy, and, on the other hand, opening up a "western passage," seeking a new road for opening up to the outside world. "Western passage" means utilizing the relations of the northwestern Muslims to establish economic and cultural relations with the Arab countries of the Middle East and entering the "Islamic economic circle," also developing border trade in the western parts, developing trade relations with the Soviet Union and other countries, and gradually developing economic and technical cooperation with the countries of Eastern and Western Europe.

Since 1982, the western territory has indeed opened a large western gate. The provinces of Ningxia, Tibet, Gansu, and Qinghai have entertained many Muslim guests from the Middle East, such as a delegation from the Islamic World Federation, the Kuwait Religious Fund and Islamic Affairs delegation, and the chief mullah (interpreter of Islamic religious texts) of the Arab Republic of Yemen. The "Ningxia Muslim Friendship Delegation" and the "Tibet Friendship Delegation" have also visited various Islamic countries, such as Pakistan, Egypt, the Arab Republic of Yemen, Kuwait, Saudi Arabia, the United Arab Emirates, and Turkey, and have had wide-ranging contacts with government personnel, economic and religious circles, seeking to establish mutual cooperation.

The western territories were also quick to develop cultural, religious, and tourist activities with the Middle East. Every year, several thousand Muslims from the northwestern territories make the pilgrimage to Mecca, enhancing the links between the peoples. There are also brisk contacts and two-way traffic in the border regions of the Middle East and on the Chinese-Mongolian border, with a gradual restoration of local trade relations.

### Unostentatious Revival of the "Silk Road"

In September of 1985, Ningxia held an "Islamic International Economic Convention," to which the chief secretary of the Islamic World Federation had sent a delegation, Egypt had participated with a government delegation led by the head of its Religious Foundation, and businessmen and diplomatic envoys from over 10 Islamic countries also participated, among them Saudi Arabia, Pakistan, Mauritania, Sudan, Mali, Bangladesh, and Iran. The international economic conventions, held in recent years by the provinces and regions of Tibet, Gansu, Qinghai, and Shaanxi were attended by many prominent businessmen and diplomatic envoys from the Arab countries. The

various western provinces and regions and their organizations in charge of foreign economic and cultural relations have also established wide-ranging relations with economic, trade, banking, and cultural organizations of the Arab countries of the Middle East, and have achieved conspicuous success in their efforts.

The two Muslim autonomous regions of Ningxia and Tibet, especially, have made rapid progress in their economic and cultural exchanges with the Middle East. The two autonomous regions are continuously sending economic and trade delegations to the Middle East, and have also repeatedly participated in the international exhibitions in Izmir in Turkey and the export commodities exhibition at Dubayy in the United Arab Emirates, and have also set up "trade windows" and offices in Egypt, in the Arab Republic of Yemen, in Kuwait, and in the United Arab Emirates. The said autonomous regions have been able to penetrate the Middle East market with such commodities as vegetables, melon seeds, live sheep, daily necessities, machinery, and equipment. The establishment of such cultural institutions as the two Islamic religious institutes in Ningxia and Tibet and the Tongxin Arabic Language School in Ningxia have been able to receive gratuitous aid of over \$4 million from the Royal Islamic Development Bank of Saudi Arabia. Ningxia is furthermore planning to utilize a loan of \$15 million from the Kuwait government for the construction of a ferro-alloy plant. There is also the Ningxia Islamic International Trust and Investment Corporation which is negotiating with Egypt and other countries for a jointly financed clothing factory, an Islamic beverage plant, a hospital for treatment by traditional Chinese medicine, and other projects.

At present, a force of over 10,000 construction workers from the five provinces and regions of Shaanxi, Gansu, Ningxia, Qinghai, and Tibet is annually working in the Islamic countries of Egypt, Kuwait, the Arab Republic of Yemen, Iraq, Libya, the United Arab Emirates, Ghana, and Bangladesh. The constructions they have contracted to build are government offices, apartments for government personnel, military barracks, residences, defense installations, and so on, which have in most cases earned them high praises. The amount of business involved for the province of Gansu alone was over \$100 million.

In April of this year, the Chinese Ningxia Islamic International Trust and Investment Corporation signed an agreement with the Saudi Arabian Arbulaka group to establish a jointly financed Ningxia-Arbulaka Islamic International Trust and Investment Corporation. This is the first Sino-foreign financed investment corporation established in the interior of China. Relevant economic circles believe that the contract for this joint venture investment corporation indicates that the western territories are making a new start in attracting and utilizing the "petro-dollars" of the Middle East, and also signals a new phase in economic and technical cooperation between the western territories and the Arab countries of the Middle East.

The advantages that the Northwest has in its Muslim constituency, and the vitality that this advantage imparts with regard to economic and technical cooperation with the Middle East, has attracted the attention of other provinces and regions of the Northwest and of the interior. Now, such provinces and regions as Inner Mongolia, Sichuan, Henan, Hebei, Liaoning, Zhejiang, and Jiangsu have eagerly established lateral economic links with the provinces and regions of the Northwest in the hope of being able to join the "Islamic economic circle."

This trend has also attracted the attention of some East Asian countries. Japan has proposed to use its capital to develop Tibet, and by the strategy of utilizing the advantage of Tibet's Muslim connections to enable Japan to break into the "Islamic market." China and Japan jointly set up a "Sino-Japanese Tibetan Development Research Association," which has started various economic investigations and research in Tibet.

#### **Incessant Increase in Border Trade**

At the same time as the western territories develop their share in the Middle East market, they are also vigorously developing trade in the border regions, and this with very distinct benefits.

As we are informed, the border province of Tibet and the autonomous region of Inner Mongolia, in addition to participating in the state's foreign trade, are also actively developing their regional foreign trade. Tibet has resumed, and is expanding, its border trade with the five union republics of the Soviet Union in Central Asia, among them the Kazakh, Uzbek, Kirghiz, and Tajik Republics, and some areas of the Russian Federated Republic. For this purpose, Tibet has specially set up a regional trade import-export company. During 1988, Tibet's import-export transactions in its regional trade with the Soviet Union amounted to 180 million Swiss francs, an almost 7-fold increase over the preceding year. Another large increase occurred during the first half of this year.

As revealed by the State Statistical Bureau, border trade during 1988 with China's neighboring countries, the Soviet Union, Mongolia, and Pakistan amounted to \$653 million, 2.37 times greater than in 1987. This was by far a much faster increase than the increase in intergovernment trade.

It is noteworthy that presently, regional border trade of China's western territories is expanding into such areas as contracting for engineering projects, joint ventures, processing of imported materials, labor cooperation, and scientific and technological interchanges. Furthermore, the above-mentioned economic and trade cooperation is now extending beyond the border regions into the interior. We are informed that among the regions of the Soviet Union that have started regional trade operations with Tibet, in addition to the five union republics of the Soviet Union in Central Asia and including three large

border regions and prefectures of Siberia, make altogether eight large regions. Tibet has also linked up with five other northwestern provinces and regions, as well as with Sichuan, Guizhou, and Henan in the development of border trade with the Soviet Union.

#### **Brilliant Prospects for the "Silk Road"**

Opening up the "western passage" has received vigorous support from the state. The state enacted many preferential policies for Tibet, Inner Mongolia, and other border provinces, allowing them the right to examine and approve import and export goods, exemption from customs duties for import and export goods, allowing some ports to open up to third countries, supporting the construction of some important communications facilities, and so forth.

At present, relevant provinces and regions of the western territory are making efforts to improve their investment climate and are prepared to allow greater freedom in their quest for further development. Tibet and Ningxia have put forward plans for the establishment of a "special economic zone for the border area" and a "Yinchuan Islamic special cultural and economic zone;" these plans are now under discussion. At the same time, supported by loans in the form of commodities from the Soviet Union, Tibet has stepped up the construction of the North Tibetan railway line, which is planned to reach Alashankou at the Sino-Soviet border in 1990, linking up with the Soviet railway system. In due course, this railway will become a "land bridge" linking the two continents of Europe and Asia. The Xianyang international airport in Shaanxi and the large Caojiabao airport in Qinghai are now most energetically being reconstructed. The Tibet and the Xi'an airline companies are in the process of buying several large passenger planes to improve air traffic. Besides, several provinces and regions are also building bases for the supply of such industrial and agricultural export commodities which sell well in the markets of the Middle East and Eastern Europe.

In the opinion of two personalities, Zhang Yongqing [1728 3057 1987], deputy director of the Ningxia Institute of Social Sciences, studying the topic of "Northwestern development in relation to opening up to the outside world," and Yu Zhengui [0151 2182 6311], director of the Ningxia Institute for the Study of Islamic Countries of the Middle East, opening up the western passage is an inexorable trend of the northwestern territory in the wake of opening up to the outside world, as it is also a shortcut in the development of foreign economic relations of the western regions and in the promotion of economic developments in the western territories. It will not only allow China to enter the Islamic market of the Middle East, but will open another important passage for investments in China by Eastern and Western Europe. It will, at the same time, establish a new pattern of multifaceted facilities for China to open up to the outside world. The present peace initiative in the Middle East and the normalization of Sino-Soviet relations provide

an excellent opportunity for the western territories to open up to the outside world.

### **Retention of Rural Production Responsibility System Advocated**

40060747b Beijing JINGJI RIBAO in Chinese  
16 Sep 89 p 2

[Article by Fan Baoren 2868 1405 0088: "The Rural Production-Linked Responsibility System Retains Great Vitality"]

[Text] The stagnation that has crept over agricultural production in recent years has subjected the household contract responsibility system to doubt and criticism. Is the system passe? This question is of great concern to everyone, especially peasants. The present article will attempt a discussion of the issue.

### **The Root of Rural Stagnation Is Not Production-Linked Responsibility Contracting**

As production-linked responsibility contracting was implemented, peasants gained autonomy in production, food and clothing needs were met in the vast majority of regions, and agriculture began to boom. So what caused output to stagnate? The correct answer to this question is revealed through sober review of history. Following the bumper harvest of 1984, "difficulties in selling grain and cotton" briefly arose; this development made some comrades overly optimistic about rural conditions and conclude that produce was extremely plentiful, indeed in glut, and that the problems of agriculture had fundamentally been resolved. Thus errors occurred in our handling of the distribution relationship between the state, collectives, and individuals. First, the traditional tilt toward cities resurfaced. Since the founding of the PRC, there have been several instances of excessive stress on industry and neglect agriculture, when budgetary inputs from all levels of government, from the center to the localities, were greatly reduced, the material and technological bases of agriculture were weakened, and disaster resistance capability declined, such that there was a serious lack of reserve strength for agricultural development. Second, inappropriately coercive measures were employed to restructure output, and command targets were issued by all administrative levels to limit major-crop sown areas and even procurement, such that peasant operational autonomy was severely curtailed. Third, state-controlled prices of agricultural means of production skyrocketed, whereas the prices of grain, cotton, oil, and other major produce were allowed to rise only a tad or not at all, and comparative returns on increased inputs in the land declined. In this macroclimate, peasant enthusiasm for responsibility contracting waned again, causing production to languish, creating produce shortages, exacerbating the contradiction between market supply and demand, and giving rise to a grim situation and tension in state-peasant relations.

Thus, it is apparent that agricultural stagnation stems from the fact that certain policies have violated the law

of the development of agricultural production and from short-sighted behavior. Blaming the problem on household contracting is neither objectively realistic nor fair.

### **Household Contracting Is Consistent with the Current Level of Rural Productive Forces**

People are unlikely to forget the operational model and massive scale of "the three levels of ownership, with the team as the basis." We carried that "iron rice bowl" of "larger size and a higher degree of public ownership" for more than 20 years and not only did not succeed in lifting peasants out of poverty and in bringing prosperity to the national economy but instead brought the entire nation untold suffering. The 3d Plenum of the 11th CPC Central Committee corrected "leftist" errors, inaugurated a new rural economic system rooted in household contracting, fully mobilized peasant enthusiasm, and enabled China's long stagnant agricultural production to achieve rapid growth in a few short years. Agricultural development spurred an upsurge in the entire national economy; brought an end to prolonged, serious produce shortage; provided the urban populace with more abundant supply of staple and nonstaple foods; and basically met the demand of light and textile industry for raw materials. Agricultural products and commodities using them as raw materials now dominate China's exports and foreign exchange earning. Thus, the fact that agriculture has stagnated in recent years is insufficient ground for the claim that household contracting has exhausted its potential and no longer has a role to play.

Quite the contrary, household contracting has by no means reached the end of its rope and instead retains great vitality. Experience in rural reform instructs us that to develop rural economy we must abide by the law of value and safeguard peasant interests, lest peasants refuse to cooperate. The bizarre cycle which began with "difficulty in selling pigs," and led to "difficulty in obtaining meat," followed by rapid growth in live pig population, then the recent return to a slump is evidence of that fact. Nevertheless, around the time of the Spring Festival of 1988 there were frequent claims that "pork shortage stems from the contradiction between small-scale production and large-scale demand," repudiation of the major role of household pig raising, and proposals that cities invest in and operate pig farms in a big way. Experience has shown that this reasoning is untenable. Undermining and repudiating household contracting will surely produce dire consequences.

The fact that many localities have broken out of agricultural stagnation demonstrates that household contracting retains great potential. Many factors constrain agricultural development, so we must establish a new, consummate, and vigorous agricultural system incorporating production, government service, and government regulatory mechanisms. The production mechanism, which is rooted in responsibility contracting, basically has been completed (yet awaits stabilization and consummation), but full implementation of the latter two

mechanisms is urgently needed so as to complement the production mechanism and ensure that it functions properly.

### Land Policy Must Be Stabilized

The policy on household land-use contracting, which separates ownership and use of the land, is a product of the line established by the 3d Plenary Session of the 11th Central Committee upholding reform, combines the fundamental tenets of Marxism and Chinese conditions, was drawn up on the basis of a summarization of innovations introduced by the masses, embodies the basic spirit of the guiding ideology and strategy of the party's rural work during the preliminary stage of socialism, is consistent with the level of development in productive forces achieved in most villages, and thus will play a positive role.

The success or failure of reform will be determined by whether or not reform can exploit the advantages of socialism, mobilize peasant initiative, and meet the need to develop productive forces. Experience in rural reform shows that household contracting has proved very successful. In Anyang, Puyang, and Hebi in northern Henan, for example, policy stipulates that peasants are to contract to farm the land for 15 years, without alteration, and responsibility contracting has been practiced for only 7 years, having been implemented on a trial basis in the winter of 1981, expanded throughout each aforementioned city in the spring of 1982, and completely implemented by the winter of the latter year. The system has proved very effective in promoting development of productive forces, so we should continue it and let it unleash even more energy. Rash repudiation of the system will undermine the credibility of the party's policy on rural reform, with dreadful consequences for agriculture, indeed, the entire economy.

Household contracting appeals to the broad masses of peasants. Surveys show that most peasants support this form of production because producer units based on blood ties possess clear, independent economic interests; land forms the psychological and material basis of peasant operational autonomy; and peasants, so long as operations are profitable, are willing to input animals, implements, machinery, funds, technology and labor in order to maximize returns.

The fact that some peasants still fear policy "reversals" provides clear evidence of peasant attachment to and support for land contracting. Thus we must unequivocally affirm the importance and necessity of household contracting. If changes are required, they should be effected pragmatically in line with reform policy, with objective conditions, and with peasant demand [so as to] bolster, improve, and adjust household contracting and make it more acceptable to peasants. Such an approach will provide peasants with a sense of stability and security with respect to policy, reassure and enable them boldly to farm, and promote the development of rural productive forces.

Some localities, principally coastal areas and the rural and suburban districts of large cities, have achieved good results in preparations for and pilot tests of large-scale farming. China is vast, regions vary greatly in all sorts of ways, [so] adopting different modes of farming in accordance with local conditions will facilitate development of agricultural production. We have always opposed impractical and blind insistence on "one knife for everything." Nevertheless, conditions in most regions are not yet ripe for widespread implementation of large-scale farming. Except for the aforementioned cities and coastal areas, China's rural economy remains undeveloped. Extensive implementation of large-scale farming is bound to create many insoluble problems and difficulties. For example, it will be impossible to effect successfully a major shift of labor out of agriculture into other sectors for a while. Some people have proposed that China's villages diversify production while maintaining agriculture as primary and, especially importantly, vigorously develop nonagricultural production so as to facilitate labor shift. This approach doubtless is correct. However, the process is gradual and cannot be achieved in a single bound. Subjective wish and actual results often diverge widely. Indeed, planning and implementation can be two different matters altogether. Many projects in many localities have fizzled out due to hang-ups of funds, technology, raw materials and the like. This objective cannot be attained in the short term. Surveys show that most households in economically developed villages combine industrial or commercial occupations with farming and that few households have totally withdrawn from agriculture. Furthermore, farming provides a much greater sense of security than do other occupations, and few [peasants] are willing to abandon the land. Therefore, failure to take objective conditions into account and to tailor measures to local conditions and blindly promoting labor shifts and concentration of land for large-scale farming are impractical and unworkable. Use of coercion to do that will provoke vicious retaliation.

### Color TV Production Less Dependent on Imports

OW1310002989 Beijing XINHUA in English  
0909 GMT 12 Oct 89

[Text] Beijing, October 12 (XINHUA)—China has made remarkable progress in recent years in relying on itself to produce color television sets in the wake of technology imports and technical renovation, the PEOPLE'S DAILY reported today.

China can now produce 90 percent of the supplementary components for color TV sets. The cost of component imports per set has been reduced from \$60 to \$20.

Since 1987, the country has purchased 40 production lines for color TV components.

Now the country can not only assemble color TV sets but also design new models including remote-controlled TV sets.

The quality of color TV sets assembled with Chinese made components has also been improving steadily.

China is also able to produce raw materials for color TV production, which every year saves more than \$1 million in foreign exchange that was previously used for imports.

Materials, including spring stainless steel bands and graphite emulsion, have been developed in cooperation by the Ministries of Metallurgical Industry and Chemical Industry and China Petrochemical Corporation.

### **Call for Adjustment of Foreign Investment Guidelines**

*HK1810104989 Beijing CEI Database in English  
0947 GMT 18 Oct 89*

[Text] Beijing (CEI)—An adjustment of guidance for foreign investment in China should be made to lead investment from the tertiary industry to the fundamental industries of power, transportation, mining, telecommunications and technological transformation.

The proposal was made at a recent seminar here by Wei Yuming, president of China Association of Foreign-Funded Enterprises.

He said that China has attracted lots of foreign investment in hotel construction to provide good living and working conditions in the past few years for foreign businessmen and tourists. But as there is a saturation of hotels in major cities, foreign investment in China should move to the fundamental industries for the benefit of both investors and Chinese enterprises.

In order to further protect the investors' interests, China will institute dual protection agreements and improve foreign economic rules and regulations.

### **Foreign Investment, Trade Up in Sichan's Chongqing City**

*OW2110142189 Beijing XINHUA in English  
1516 GMT 20 Oct 89*

[Text] Chongqing, October 20 (XINHUA)—Foreign economic and technological cooperation talks ended here recently with a volume of business of \$42 million.

More than 600 businessmen from a score of countries and regions took part in the talks.

The newly founded Chongqing Metallurgy Export and Import Company has clinched a deal worth more than \$10 million with foreign business people.

Deals for some products such as silk, medicine and machinery involve more than \$1 million each.

One Sino-foreign joint venture was approved with a total investment of \$1.02 million, including \$483,800 of foreign investment.

## **ECONOMIC ZONES**

### **Yantai Economic Zone 'Improves' Investment Environment**

*OW0210130089 Beijing XINHUA in English  
0158 GMT 2 Oct 89*

[Text] Jinan, October 2 (XINHUA)—Any foreign firm or businessman planning to invest less than \$30 million in the Yantai Economic Development Zone of east China's Shandong Province can now finish all their approval procedures within 20 days.

This is a result of an effort by the zone to improve its investment environment in line with international practice.

The Yantai Economic Development Zone, founded in March 1985, completed its infrastructural and residential facilities in the first two and one-half years.

Chen Wanguang, director of the zone's management committee, told XINHUA that to provide a good "soft" and "hard" environment and a "small climate" for foreign investors is one of the reasons the zone has attracted an increasing amount of investment.

"Soft" environment means to reduce red tape and raise work efficiency in addition to preferential policies. Projects using foreign investment need only the examination and approval of three to four offices in the zone. Joint ventures operating in the zone have already achieved good economic results.

Within the past year, the zone signed 47 contracts with a total investment of \$117.82 million, 2 times the total of 3 years before. An increase in investment by foreign firms was also seen in the first 8 months this year.

Strengthening legislation in the zone is also part of the "soft" environment. Yantai has published more than 60 laws and regulations on management of joint-ventures, overseas economic contracts and imports.

Lawyers' offices and legal notarization offices serving foreign businessmen in the zone are helpful. For instance, a central heating system installed by a Chinese company flooded the work shops of a joint venture. The loss was judged to have been caused by the carelessness of the workers who did the installation work. Under the zone's regulations, the Chinese installation company compensated the joint venture for the loss.

Chen said the zone also adheres to the principle of separation of administration and management. His committee is in charge of planning, supervision, coordination, providing service and the implementation of the

country's policy, but does not interfere in enterprises' production and management. That has guaranteed the autonomy of enterprises.

A Sino-U.S. food cold storage company went into operation in May 1988. It produced a profit of 1.5 million yuan in the first 8 months and recouped its capital outlay in the first year.

## TRANSPORTATION

### New Chengdu-Fuzhou Air Route Opens

OW2709122189 Beijing XINHUA in English  
0911 GMT 27 Sep 89

[Text] Chengdu, September 27 (XINHUA)—A new air route was opened between Chengdu and Fuzhou today. It is expected to become one of the most important air routes connecting southwest China and the coastal areas.

The Southwest China Aviation Company is flying Boeing 737-300 planes on the 1,770-kilometer route. The two hour and ten minute flight is scheduled for every Wednesday between the two cities.

The new route provides opportunities for Sichuan and Fujian Provinces to promote economic and cultural relations, tourism and strengthen other ties.

## PRC MEDIA ON FOREIGN ECONOMIES

### Lessons from Yugoslavian, Hungarian Economic Reform

40060700 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, Jul 1989 pp 37-39

[Article by Gu Renzhang 7357 1103 4545: "Experiences and Lessons from the Yugoslavian and Hungarian Reform Deserve Close Attention"]

[Text] Last year, I was a member of the scientific delegation from the Shanghai Academy of Social Sciences that went to Yugoslavia and Hungary to investigate and discuss with economists of these countries on development and reform. Both these countries are now facing economic crises which are causing political unrest. The economic crisis in Yugoslavia had begun in the early years of the 1980's and has lasted for 10 years, mainly manifesting itself in the following ways: A vicious currency inflation, which in 1988 reached as high as 200 percent; stagnation in production, with the annual growth rate of the social output value below 1 percent; a huge foreign indebtedness, which amounts to \$1,000 per capita of the population; a lowering of the people's standard of living, the ranks of the unemployed having swelled to 1 million people. Hungary is experiencing problems similar to those of Yugoslavia, but in degrees not as serious as those of Yugoslavia. During 1988, commodity prices, as economists estimate, increased by over 20 percent. The annual rate of economic growth was

between 0.6 to 1 percent. Hungary too incurred foreign indebtedness in the course of its economic development and in its efforts to overcome difficulties. The per capita foreign debt is \$1,800, the highest among all East European countries. Since the start of the 1980's, Yugoslavia and Hungary have been on the brink of economic disaster, and unable to make any progress in economic development and reform. Apart from factors related to the world economic environment, the deep-rooted cause can only be sought in the economic system and the political system. Applied to China's present condition, there are certain questions that deserve our thorough consideration and thought.

### The Ownership System: A Crucial Problem in the Economic System

All Yugoslavian and Hungarian economists agree that the crucial problem in the economic system is the ownership system. Since 1974, Yugoslavia has practiced social ownership, according to the theory of Kardelj, i.e. "the means of production belong to all members of society, and not to any unit or person." However, this system of "ownership by society" did not resolve the problem of being of a "nebulous" character. Who is the real owner of the means of production, and who is responsible for the means of production and their operation, are questions still left vague: everybody is owner, yet everybody is also not responsible. "In dealing with enterprise assets, workers act as if it all was their own property, but when it comes to properly managing the assets of the enterprise, it again appears as if they belong to someone else."

Because the problem of the "nebulous" character of property rights remains unresolved, enterprise actions are very irrational. For instance: 1) Enterprises lack motivation, their actions have become short-term oriented, without showing any intention of laying up accumulations, or of any conscious effort to do well in business operations. Some enterprises allow almost all income to be split up among the workers. The workers seek to increase their own income, but do not care to raise product quality. For development of production, the enterprises rely completely on loans and foreign borrowing. 2) Enterprises rely on price increases for an increase in income, price increases greatly dampen interest in improving productivity, and price increases are to currency inflation just as adding fuel to flames. 3) Enterprises work under uneven conditions, hardship and happy circumstances are unevenly apportioned. In enterprises with best equipment and high technologies, labor conditions are easy and income is high. In enterprises that lack technology and equipment, even hard work will not produce anything but low income. In the words of a Yugoslavian economist: It does not matter how work is done, it only matters where one works. 4) Decision-making powers are too decentralized. Large enterprises have been divided up into many small enterprises (basic organizations of the federation of labor, equal to workshops of large plants), which results in the dispersal of capital funds and credits. Small enterprises are also

unable to do what large enterprises can do, and it is now planned to merge certain small enterprises, but this is again meeting with opposition from the small enterprises.

The vagueness and ambiguity in the ownership system has naturally led to a situation in which, economically, everybody is owner, but also that nobody is owner, so that nobody takes responsibility. As we see it, property right is the foundation of microeconomic operations, and a reform of the ownership system must resolve the problem of its "nebulous" character. Many Yugoslavian economists have begun to raise doubts about the theory and form of the social ownership system and reflected on this question. Practice indicates that the idea, reform could avoid touching on the nature of the ownership system, is untenable; reform of the ownership system can provide an important foundation for the entire economic reform.

#### **The Need To Actively and Cautiously Tackle Price Reform**

In order to establish and perfect a socialist market system, it is necessary to overcome the difficulties of price reform, and price reform is a highly complex and sensitive area, presenting great difficulties and great risks. In their efforts at price reform in the course of their economic reforms, both Yugoslavia and Hungary experienced, to different degrees, difficulties and reverses.

Yugoslavia began in the 1950's to abandon the system of having prices uniformly fixed by the state. It expanded free pricing, abolished subsidies, and allowed domestic prices to become linked to international market prices. However, due to a weakening of the state's macroeconomic control, chaos and instability ensued in the country's economic life. To stabilize commodity prices, the state repeatedly adjusted the scope of supervision over prices between 1971 and 1982. In 1980, Yugoslavia promulgated rules and regulations concerning social price supervision, emphasizing the use of self-governing agreements and social contracts to determine commodity prices. Because the "negotiated" prices did not observe the law of value, the reform not only did not achieve its anticipated result, but, on the contrary, induced a price rise on nefarious materials. In 1987, the state was compelled to adopt the measure of freezing 85 percent of all commodity prices for six months, but this too proved ineffective. Enterprises would use the pretext of developing new products to carry out price increases in disguised form. After unfreezing, commodity prices would race up irresistibly like a wild horse released from halter. The Yugoslavian experience with prices reform demonstrates that in times of economic instability, decontrolling prices too early will create currency inflation, a major cause for multiple increases in wages and commodity prices. Later, it was attempted to stop the currency inflation by renewed control of commodity prices, but once prices have shot up, it is very difficult to force them down again.

Before its reform, Hungary's commodity prices were all fixed by the state. Only after the economic reform of 1968, the state adopted a 3-fold form, namely of fixed prices, floating prices, and free prices. Due to the influence of political and social factors of the time, it was carried out only in the area of production. Enterprises that had not yet undergone transformation found it impossible to accept the adjustments of the prices for means of production, and one after the other demanded price increases. In order to maintain stability of prices for consumer goods, the government constantly increased subsidies, but stopping price increases by means of subsidies leads to increasing deficits in public finance. To make good these deficits, the government has no other choice but to increase taxes, which in turn induces price increases in the area of production. Since the 1970's, Hungary is caught in the vicious circle of subsidies—tax increases—price increases. There have been 26 major price rises, on the average one and one-half times every year. During the period from 1968 to 1980, while adjusting prices, Hungary at the same time adjusted wages and social subsidies, and the living standard was rising to varying degrees. After entering the 1980's, wage increases were not catching up with commodity price increases, and the living standard of the people again declined, and the people began to show dissatisfaction with the government and started to complain. Hungarian economists believe that the major causes for the country's economic difficulties were that the price reform was not carried out thoroughly enough and that no rational and sufficiently flexible price system had been established. To extricate the country from its difficulties and seek new development, it is necessary to further pursue reform of the price system and to allow market demand to determine prices.

#### **Economic Reform Must Be Pursued Together With Political Reform**

Yugoslavian and Hungarian economists strongly emphasized the importance and urgency of political structural reform.

An important problem for Yugoslavia is decentralization and the lack of a central authority. The purpose of the 1965 reform was to accelerate the establishment of a social economic system with a decentralization of authority. In the process of decentralization, functions of the state had become watered down too early, and the authority of the central government has continuously declined, while the powers of the regional authorities have continuously gained in strength. After Tito died, the regional governments took turns sending their appointees to assume the office of president in the central government of the federation. The functions of the central government declined further and further. The six republics and 2 autonomous provinces became systems to themselves, and actually became what amounts to eight "states." The political decentralization was bound to lead to economic decentralization. Yugoslavia was the first country to introduce market mechanism; however, it never formed a unified market throughout



the federation, but left it at eight markets, which were closing themselves off against each other and keeping themselves separated from each other. In 1983, the Yugoslavian federal assembly passed a "Long-Term Program for Stabilization of the Economy," which by its attitude of "each take what he needs" became a useless scrap of paper. Economists believe that without a reform of the political system, with its excessive decentralization, it will hardly be possible to achieve a stable development in the country's economy.

Hungary began its economic structural reform in 1968, but never conducted a political structural reform. Economic reform without political reform creates a large disparity between politics and economics. During the last 10 years, Hungary's economic condition has not improved, but rather continuously deteriorated, and the people's confidence in the government has declined. Since 1987, a number of economists have submitted joint petitions to the central committee to institute new reforms. Among the measures taken by the Hungarian Government to overcome the current economic difficulties, were, apart from adjusting its foreign economic policy, reforming the economic management structure, instituting a reform of the tax system and banking reform, reforms of the political structure and intensified democratization of politics, to enhance the trust of the people in their government and raise the confidence of the people that difficulties will be overcome. Hungary thus provided an excellent political environment for continued economic reform.

#### **Similarities Between China's Reform and the Reform in Yugoslavia and Hungary**

China's reform differs from reforms in Yugoslavia and Hungary in objectives, measures, methods, and internal and external conditions, but problems that have arisen in recent years in China's reform and development have many similarities with the problems in Yugoslavia and Hungary.

1. Rise in the general level of commodity prices and currency inflation. Although currency inflation in China is only a recent phenomenon, it has assumed a trend that is hard to stop. There has been no letup in shortages of supplies in the market, large-scale rise in commodity prices, and the double inflation of investment and consumption funds. Statistics show that the national commodity price index rose 6 percent in 1986, 7.3 percent in 1987, and 18.5 percent in 1988, and that the real income of a considerable portion of the population dropped. We must take warning from the lessons of Yugoslavia and Hungary that serious inflation leads to social instability; the danger of allowing currency inflation to continue its rampant course is that it will drown all achievement of the reform and all future prospects.

2. As long as the "nebulous" character of property rights remains unresolved, enterprise actions will be short-term oriented. Under the system of not differentiating between

the function of the state as owner of the means of production and its function of macroeconomic administrator, the enterprises will contract from the higher administrative departments, and that will undoubtedly increase administrative interference. There is no representative of state property within the enterprises, and the contractor will not feel responsible for the property, but only responsible for making a profit. The evaluation norms of the higher administrative department will induce and aggravate the short-term orientation of the enterprises. Although the current provisions allow the enterprise to freely dispose of that portion of the profits which the enterprise is entitled to withhold, the property rights do not belong to the enterprise, and the property relations between the enterprise and the state remain blurred. To resolve the "nebulous" character of property rights, China's economists have proposed a functional separation of state administration from state ownership, to establish a bureau for the administration of state property, and to have this bureau entrust state property to various state property management companies to manage, such companies to bear responsibility for their own profits and losses. If this idea is realized, it would only be workable if the enterprises, correspondingly, would institute shareholding systems. The great advantage of the shareholding system is that property rights are clear, namely belonging to anyone holding a share, and while it will not change the state of public ownership, it will be an effective form of separating ownership rights, property rights, and management rights.

3. The weakening of central government authority in the course of the reform, and the early signs of excessive delegation of powers to the local authorities, which will entail a latent danger of microeconomic chaos and loss of macroeconomic control. For instance, year after year the central authorities demand retrenchments in the scale of investments in capital constructions, but the result is that failure to control these investments persists year after year. The central authorities call for structural adjustment of commodity prices, but the result is an uncontrollable general trend of price increases. The command-type allocation of means of production by the central authorities has failed to work, as some basic administrations instituted regional blockades. All these problems must have our attention. To ensure smooth progress in the reform, it is urgently necessary to enhance the role of the central authorities in their macroeconomic regulation and control and in their directional guidance. The reform in all socialist countries must do away with the traditional model of centralization of all state power, and must institute an appropriate decentralization of authority, but whether centralization or decentralization, each certain limits must be observed. It is only on the basis of a centralized state power that decentralization may be instituted. In other words, microeconomics must be placed under the control of macroeconomic policy decisions. Yugoslavia was too hasty in abolishing the state's economic functions and was too early in stressing regional decentralization, and as a result lost macroeconomic control. Hungary was more successful in dealing with the

problem of centralization of state power and decentralization. They did not decentralize controls as Yugoslavia did, but while preserving the state's functions of macroeconomic regulation, they also were able to bring microeconomic enthusiasm fully into play. It is worthwhile for us to earnestly study the practice, experiences, and lessons of Yugoslavia and Hungary.

The economic crisis in Yugoslavia and in Hungary has arisen in a protracted course of developments. Looking at the history of their economic structural reforms, we see that both countries have had their "golden age." In Yugoslavia, successful progress was made during the period from 1952 to 1965 in production development as well as in the improvement of the people's living standard. Hungary, too, developed well during the 10 years following its 1968 reform. However, from then on things began to go downhill, and by the time the 1980's arrived, the crisis finally broke. By now, China's economic structural reform has also lasted 10 years. China's currency inflation of 1988 is similar to that of Hungary, with the evil of consumption and investment inflation dragging on for a long time, without a respite in sight. Enterprises are short-term oriented in their actions, and production enthusiasm among the workers tend to decline. As to the developmental prospects, it seems China cannot get off the road that Yugoslavia and Hungary have trod. If no new breakthroughs are achieved in the field of theory and no new creative steps are taken in practice, will we then also gradually slide downhill?

Presently, China's economic structural reform has reached a critical stage. At this stage, it is extremely important to change strategy, policy decisions, and the program of execution, as every mistake may possibly lead to failure in the reform. Since there are similarities between the economic structural reforms of Yugoslavia and Hungary with the reform in China, their experiences and lessons are significant for us in that they can serve us as reference.

## AGRICULTURE

### Easing Tension in the Grain Situation

40060636h Beijing Dangdai Zhongguo De Liangshi Gongzuo [CHINA TODAY; FOOD GRAIN] in Chinese 1 Feb 88 Chapters 4-5 pp 104-171

[Chapter 4: "Strengthening the Centralized Administration To Ease the Tension in the Grain Situation (1958-65)"; Chapter 5: "Insuring Grain Supply in the Midst of Turmoil (1966-1978)" from the book *Dangdai Zhongguo De Liangshi Gongzuo*; Deng Liqun, Ma Hong, Wu Heng, chief editors]

[Text]Chapter IV: Strengthening the Centralized Administration To Ease the Tension in Grain Situation (1958-65)

During the First 5-Year Plan, thanks to the implementation of a series of correct CPC Central Committee-formulated plans and policies, building of the national

economy proceeded rapidly; industrial production increased steadily; grain output increased year by year; domestic receipts and expenditures of grain were balanced with some surplus; the country's grain stores grew substantially; the entire economic situation was very good; and the grain situation was also good. However, in 1958, Mao Zedong rashly launched the "Great Leap Forward" campaign and the people's commune campaign, which unleashed a serious unchecked spread of leftist errors that was largely characterized by high quotas, blind guidance, exaggeration, and a "premature transition to communism." In addition, the natural disasters, and the USSR government's perfidious scrapping of agreements at that time created serious hardships for China's national economy for 3 consecutive years from 1959 through 1961. Agricultural production was sapped of its vitality; grain output decreased tremendously; and grain was in very short supply. The country's grain stores declined dramatically; allocations became difficult; there was a shortage of supply; and the livelihood of the people in both cities and the countryside was very greatly affected.

During the winter of 1960, the CPC Central Committee and Mao Zedong began to struggle against "left" deviation errors in rural work, and they decided to conduct a readjustment of the national economy under the eight character policy of "readjustment, consolidation, filling out, and raising standards." As a result of its implementation by the CPC and the people of the whole country, China's economy recovered and developed fairly smoothly. Grain production saw a spirit of going in for agriculture in a big way, and going in for grain in a big way. In the distribution of grain, various effective measures were taken to increase centralized administration. Thanks to the joint efforts of the whole country, the difficulties were surmounted, and the grain situation began to ease gradually. By 1965, grain output recovered to the 1957 level; the national grain procurement and sales situation took a turn for the better; and the people's livelihood improved.

### Section I. Grim Grain Situation

Numerous major errors occurred in the guiding thought and in the economic policies of the "Great Leap Forward" campaign and the people's commune campaign that began in 1958, causing serious damage to the building of socialism grain output dropped tremendously, causing serious difficulties in grain work.

Following victorious completion ahead of schedule of the First 5-Year Plan, the broad masses felt energetic and daring, and they brimmed with vigor. The correct aspect of the general line for socialist construction and other basic points that the second meeting of the CPC 8th National Party Congress passed was its reflection of the universal desire of the broad masses of people who urgently wanted to change the backward state of China's economy and culture. Its shortcoming was that it ignored objective economic laws. Failure to take into account necessary conditions, eagerness to achieve, and lopsided

emphasis on speed of development led to the serious unchecked spread of "left" deviation errors. This was manifested in agricultural production, with criticism of the "theory of limits to increases in grain yields," and propagandizing of "the greater people's courage, the greater the land's output," which improperly exaggerated people's subjective will and man's dynamic role.

When some leading cadres who went to rural villages to gain an understanding of the situation heard unrealistic things reported, not only did they not put a stop to it, but they lauded it, abetting exaggeration. In August, the CPC Politburo held an enlarged meeting at Beidaihe. This meeting estimated and formally announced that grain output would reach between 600 and 700 billion jin in a between 60 and 90 percent increase over 1957. By the end of 1958, units further concerned inflated estimated output to 850 billion jin on the basis of reporting to the agricultural conference by all provinces, autonomous regions, and municipalities under direct central government jurisdiction.<sup>1</sup> Calculations based on this output meant approximately 1,300 jin per capita of grain nationwide, creating the fiction that China had already solved its grain problem.

Following the Beidaihe Conference, an upsurge in the people's communalization campaign occurred in rural villages everywhere in the country. By the end of September, virtually all rural villages throughout the country, with the exception of the Tibetan Autonomous Region and Taiwan Province, were substantially communalized. This change, which got ahead of objective reality, accentuated blind guidance and the "premature transition to communism." Leveling of the ranks between the rich and the poor, sharing equally, and excessive obligatory labor in communes meant that all the property of production teams, and even of individual commune members, was taken over without compensation by the commune in a large scale "egalitarian and indiscriminate transfer of resources," which seriously damaged productivity. As a result, agricultural production, principally grain production, was seriously hurt.

At the same time, a mass movement of going all out to produce steel surged throughout the country. Within 1 or 2 months during the autumn of 1958, all units transferred large numbers of personnel for the large-scale smelting of steel. Rural villages also assigned large numbers of young, able-bodied laborers to assist industry. This caused a labor shortage in rural villages, and damage to the fairly coordinated proportional relationships in the distribution of the workforce within the national economy. The summer grain harvest of 1958 was a very good one, and good crop weather prevailed during the autumn as well. However, since agricultural production at that time depended mostly on hand operations, the transfer from rural villages of large numbers of laborers, and the dispatch of farm implements and draft animals to support industry seriously hurt agricultural production. Additionally, during the season when rural villages harvested the autumn crop and planted winter wheat, the masses were urged to do deep plowing.

This not only damaged the soil, but also interfered with the autumn harvest. Some grain that had ripened was left in the fields with no one to harvest it, and there was no one to pick cotton. This resulted in bumper output but no bumper harvest. The masses were very upset and said in criticism: "The cotton hangs its head in mourning in the fields; the beans burst from their overripe pods. Never has such farming been seen." Later on, after verification showed grain output for 1958 to be 400 billion jin, an increase of only 2.5 percent over the 1957 output.

The high quotas, blind guidance, tendency toward exaggeration, and the "premature transition to communism" that occurred under guidance of erroneous "left" deviation ideology seriously dampened peasant enthusiasm for production. As a result, grain output for the 3 year period 1959 through 1961 dropped tremendously, the 3 year average being 307.3 billion jin, a 21.2 percent decline from 1957. Grain output averaged 433 jin per capita, 170 jin less than in 1957.

The tremendous drop in grain production meant serious difficulties for grain distribution work. During the period from 1958 through 1961, the country's grain receipts were insufficient to offset expenditures. Year after year, grain in storage had to be tapped; grain allocation and transfer became increasingly hectic, and fulfillment of grain allocation and transfer plans was very poor. Plans called for the shipment of 8.165 billion jin during the first quarter of 1959, but as of 20 March, only 4.286 billion jin, or 52.4 percent of the planned amount, had been shipped. After 1960, more and more of the state grain stored along transportation lines was depleted. Allocation and transfers became increasingly difficult. In large- and medium-sized cities, small amounts were sold as they were received. There was an omnipresent danger of running out of stock. During the first 10 days of June 1960, Beijing had stocks sufficient for only 7 days of sales; Tianjin's stock was sufficient for only 10 days sales; and Shanghai grain departments no longer had rice in stock. They had to depend on loans of export grain from foreign trade departments to get by. In 10 cities of Liaoning Province, grain in storage was also only sufficient for 8 or 9 days' sales. Statistics showed that as of the end of September 1960, grain in storage in 82 large- and medium-sized cities in the country was down by nearly half from the same period during the previous year, and less than one-third the normal amount in storage. In the four major cities of Nanchang, Jingdezhen, Ganzhou, and Jiujiang in Jiangxi Province, which had been a shipper of large amounts of rice at that time, a situation of daily allocations for daily sales also existed.

In order to stabilize markets and guard against running out of stock, many cities resorted to temporary emergency measures. Some large- and medium-sized cities in Liaoning Province, for example, had individual grain stations take turns selling grain, residents being permitted to buy only 3 to 5 days of their grain rations each time. Beijing evened out surpluses and shortages among

grain shops each night, taking from one to replenish another. The city sent numerous cadres outside the city to hurry up grain transfers. Whenever they saw grain being loaded at a shipping station, they telephoned an alert to Beijing on the time of arrival to enable advance planning to solve pressing needs. Shanghai assembled large numbers of trucks at train stations and wharves to wait. As soon as grain arrived, they would rush haul it to grain-short grain shops. These circumstances showed just how extremely serious the grain situation was.

## *II. High Production Estimates and High Requisition Procurement Occasion Serious Difficulties for Agricultural Production and the Peasants' Livelihood*

High quotas and the tendency toward exaggeration of grain production, as well as the level-by-level falsification of grain production reports led to errors in high requisition procurement. The press reported at the time that, "The high yield wheat satellite that Heping Agricultural Commune in Xiping County, Heping Province launched reached a yield of 7,320 jin per mu." "The early paddy crop in Xihe Township, Macheng County, Hubei Province produced yields of more than 36,900 jin per mu." Such reports reached an unbelievable stage. On the basis of an estimated grain output of 750 billion jin, which units concerned formally announced in 1959, requisition procurement plans calling for 115.9 billion jin (trade grain) were approved for all provinces, autonomous regions, and municipalities under direct central government jurisdiction. On the face of it, these requisition procurement plan figures amounted to only approximately 18 percent of total estimated output, less than in any year since the beginning of monopoly purchase and sales. It seemed fulfillment of quotas would pose no problems. However, since the outputs were seriously unrealistic, only 99.2 billion jin (amounting to 117.5 billion jin of raw grain) was procured and moved into granaries that year for fulfillment of only 85.6 percent of plan figures. However, the subsequently verified gross output was 400 billion jin meaning that the amount procured and moved into storage accounted for 29.4 percent of gross output. During the period 1959 through 1961, the 3 year average grain output was 82.76 billion jin less than in 1957, but the average annual amount of requisition grain procurement increased 9.58 billion jin over 1957, requisition procurement as a percentage of gross grain output averaging a 34.4 percent rise, the rise reaching 39.6 percent in 1959. Unavoidably, this meant that too much grain was purchased in many places. In December 1960, the Finance and Trade Office of the State Council made the following analysis in "Outline for Reporting Grain and Market Matters": During 1958 and 1959, approximately 20 billion jin too much trade grain was requisition purchased.

Several consecutive years of high requisition purchases led to serious proportional imbalances among production, purchases, and amounts rationed. The amount of grain held in rural villages declined tremendously. The average per capita amount of grain on hand for the whole year in villages throughout the country fell from 589 jin

in 1957 to 429 jin in 1960. During 1960 and 1961, rural villages had less than 1 jin per capita per day of grain rations on hand, and in serious disaster areas, the amount of grain rations on hand was only several liang per capita per day. In order to fulfill state requisition procurement quotas, some places did not keep enough livestock feed grain and seed grain to maintain reproduction. In particular, the shortage of livestock feed grain caused fairly serious livestock deaths. At the end of 1961, there were 69.49 million head of donkeys, horses, mules, and cattle in inventory, 17.1 percent fewer than the 83.82 million head in inventory at the end of 1957. At the end of 1961, hogs in inventory numbered only 72.27 million versus 145.9 million at the end of 1957 for a drop by more than one-half. High requisition procurement mistakes caused serious hardships for agricultural production and the peasants' livelihood.

In order to solve the problem of insufficient rural grain retention, the state sold back large quantities of grain to rural villages. During the 3 year period 1959 through 1961, an average of 36.44 billion jin of grain annually was resold to rural villages amounting to 34.4 percent of the average amount of requisition procurement for the 3 years, and 8.1 billion jin more than in 1957. The large amount of reverse grain sales upset the direction of commodity grain flow, caused a shortage of transportation, and a waste of manpower, material, and financial resources.

## *III. Serious Waste of Grain Exacerbates Hardships In Society*

Right after the beginning of the "Great Leap Forward" in 1958, all jurisdictions organized the masses for large scale smelting of steel, the building of highways, and large scale construction of water conservancy. This corps was known as the "Third Route Army." Influenced by the slogan, "Go all out in production; loosen your belts and eat," this "Third Route Army" ate wherever it went causing a serious waste of grain. In a situation of large scale practice of egalitarianism in rural grain distribution, in particular, institution of the "supply system" [a system practiced before and immediately following the People's Republic whereby laborers were provided the primary necessities of life], eating free of charge, destroyed the socialist principle of distributions according to labor. Guided by the ideology of "grain is under my control, so I'll eat as much as I want," the rationing of grain was abolished and public mess halls opened on a large scale. This required more than 90 percent of the rural population nationwide to eat in public mess halls. It was mistakenly believed that this was an effective means by which communes could be organized along military lines, actions taken along combat lines, and life collectivized, as well as be a key to the inculcation of a socialist and communist ideological consciousness in the peasantry. From the very beginning of the large-scale operation of mess halls in 1958, waste of grain became increasingly serious. Some commune messhalls consumed 3 month's grain rations in half a month. Since there was only a single public mess hall in

a production team or a production brigade, for peasants living more distant from the messhall, particularly peasants in mountain regions, it was very inconvenient to have to go to the public mess hall to eat. For old people and children, going back and forth on foot was even more difficult. Commune members were very disgruntled. In 1959, when serious grain difficulties had already occurred, the CPC Central Committee proposed distribution of grain rations to individual household, the policy of voluntary eating in mess halls, savings reverting to units themselves being maintained. Some specific remedial actions were also taken such as urging commune messhalls to have their own vegetable fields for the growing of more vegetables in order to have a mixture of vegetables and grain to eat. Although some areas managed to carry out this CPC Central Committee policy fairly well, other places also disbanded the rural commune mess halls. However, most places continued to allow peasants to eat out of the mess hall "large common pot" in the practice of egalitarianism, which did not fundamentally solve the problem. By May 1961, when Zhou Enlai, Deng Xiaoping, Pengzhen, and Hu Qiaomu conducted a rural survey, they reported to the CPC Central Committee that commune members universally disapproved of communal mess halls, and that the "supply system" did much harm. Commune members taking part in production labor wanted workpoints calculated on the basis of the amount of work they did. Mao Zedong approved and forwarded their survey report. At the same time, when Liu Shaoqi conducted a survey at Tanzichong in Ningxiang County, Hunan Province, he also said that "mess halls offering no advantages should be disbanded; there is no benefit to be gained from forcing them to continue." During May and June 1961, the CPC Central Committee again revised "Rural People's Commune Work Regulations (Draft)," which the Guangzhou Work Conference had drawn up in March of the same year, drawing up "Rural People's Commune Work Regulations (Revised Draft)." This revision eliminated some of the supply system provisions, and shut down the communal messhalls, thereby solving a major problem of egalitarianism among commune members in people's communes. Only thereafter did all jurisdictions throughout the country disband the rural communal mess halls and distribute grain rations to individual households. Commune members happily returned home to eat.

The mistakes made during the "Great Leap Forward" of high grain estimates, high requisition procurement, and the practice of egalitarianism in distribution seriously dampened peasant enthusiasm for production, wrecked agricultural production, and caused serious hardships in the daily life of the peasantry. Urban population increased too much during these years and grain sales shot up, while the grain rations of city and town residents repeatedly declined. In addition, a decline occurred in the amount of grain for use in nonstaple foods; supplies of meat and vegetables were lacking; nutrition was poor; and the level of health declined. During this period, large numbers of people in both cities and the countryside suffered from edema and hepatitis, and in some areas, particularly rural

villages where an abnormal number of deaths occurred, this lesson was an extremely profound one.

## **Section II. Forceful Action Taken To Reverse the Difficult Situation**

### *I. Strengthening Leadership To Overcome the Serious Grain Difficulties*

During the 3-year period of hardships, grain output declined tremendously, and the conflicts between production and demand, and between supply and demand were extraordinarily prominent. Revival and development of grain production and doing a good job of distribution to insure military and civilian grain needs were important issues at that time. Both the CPC Central Committee and the State Council devoted extraordinarily serious attention to the production and distribution of grain.

In a letter to all provinces, autonomous regions, and counties, and to cadres at all levels in communes and brigades during April 1959, CPC Central Committee Chairman Mao Zedong said, "Extremely close attention must be given grain ...Very, very close attention must be given to harvesting, storage, and consumption each year." "For 10 years there is to be no boasting or high-sounding words. It will be extremely dangerous to say such things. It must be understood that ours is a large country with a 650 million population in which getting enough to eat is a matter of paramount importance." This letter from Mao Zedong played an important role in impelling cadres at all level to pay very strict attention to grain work.

In order to reverse the difficult situation, on 10 August 1960, the CPC Central Committee issued "Instructions on the Whole Party Moving To Make Great Efforts in Agriculture and Great Efforts in Grain," which said that agriculture is the foundation of the national economy, and grain is the foundation of the foundation. The strengthening of agriculture will be a major tasks for the whole party for a long period of time. All trades and industries must place assistance to agriculture in a position of prime importance. Positively nothing may be allowed to impede agricultural production and grain production. This instruction required as follows: Need for resolute staffing of the agricultural front, labor forces on the grain production front first of all. Efforts in both the cities and the countryside must be made to insure that the labor force engaged in agricultural production during the busy seasons in agriculture will be at least 80 percent or more of the total rural workforce. The scale of rural water conservancy construction and all other construction must be resolutely curtailed. The number of civilian laborers working on water conservancy construction must be reduced from the original 70 million to 10 million, the workforce thus cut being used to staff the front line of agriculture production. One hand must take firm grip on production while the other hand takes firm grip on daily life to do a genuinely good job in both planning the use of grain and conserving the use of grain. Grain ration standards must be kept low; large amounts

of melons and vegetables must be grown; and substitute foods and substitute products are to be used in a big way. (This was commonly termed "low standard and melon and vegetable substitutes" at the time). By way of readjusting the national economy to achieve the requirement to go all out in agriculture, and to go all out in grain, the CPC Central Committee also drew up a series of policy regulations. In ratifying and forwarding a report from the State Statistical Commission Leading Party Organization in September 1960, the CPC Central Committee said agriculture must have prime position in the national economy during 1961, and all productive construction endeavors were to be readjusted, consolidated, filled out, and standards raised in the course of development. Central Committee "Emergency Instructions on Rural People's Commune Current Policy Questions" (Article 12) of November 1960 contained explicit provisions with regard to upholding the tri-level system of ownership in which production teams were the foundation, complete correction of the mistake of permitting egalitarian and indiscriminate transfer of resources, and insuring labor forces needed for agricultural production. "Rural People's Commune Work Regulations (Revised Draft)" (Article 60), which the CPC Central Committee drew up in May 1961 provided explicit provisions for the management system, the distribution system, and management and administrative problems in communes. The implementation of these major policy measures played a major role in overcoming difficulties in moving ahead.

During this period, State Council Premier Zhou Enlai took a personal interest in grain work. He devised strategies, labored long and hard, and invested much painstaking effort in the food problem of the people of the whole country. During the 2 years and 4 months period from June 1960 through September 1962, he had more than 115 talks with those concerned with the grain issue. He personally reviewed grain plan tables page by page. A look at just 32 grain plans for the period 1960 through 1963 that the Premier's Duty Office returned to the Ministry of Grain Office in December 1965 showed Premier Zhou's handwriting on each sheet in a total of 994 places. This included marks in red or blue pencil in 639 places, and readjustment or revision of plan figures in 207 places. He made calculations along the edges of tables in 50 places, wrote comments and numbers in 91 places, and revised the forms in 7 places. For example, on the table titled, "Estimate of Grain Contract Production Output and Requisition Procurement for 1962-1963." Zhou Enlai penciled red or blue notations in 145 places, and readjusted and revised figures in 40 places. He did calculations at six places along the margins of the table, and he wrote figures in 70 places and comments in seven places. The entire table is covered with the premier's handwriting showing how much Zhou Enlai was concerned about grain procurement, marketing, allocation, and storage plans. Chen Guodong [7115 0948 2767], the Ministry of Grain Leading Party Group secretary at that time recalled that "during the three year period of hardship, I went to see the premier several

times each week, mostly to talk about grain problems. Usually, he sent for me evenings. Usually I went to his office. Sometimes I went at 9, 10, 11, or 12 o'clock at night. We talked until 3 or 4 am. Sometimes I didn't go until 2 or 3 in the morning." The Deputy Grain Minister at that time, Yang Shaoqiao [2799 1421 2890] said that the prime minister called me to operate the abacus making careful calculations. The Premier personally allocated grain. "Actually, it was Zhou Enlai who personally planned grain distribution work during these several years. He was the 'commander-in-chief' in solving grain problems at that time."

The broad masses of cadres, staff members and workers in grain departments at all levels worked under leadership of the CPC and the people's government to even out grain surpluses and shortages to solve the grain difficulties. Day and night, they applied themselves diligently to state requisition grain procurement, marketing, allocation and transfer, storage, and processing. Cadres, staff members, and workers from top to bottom in grain departments set a personal example. They took the lead in reducing their grain ration standard. Numerous comrades worked continuously day and night thinking nothing of hardships. Personnel in grassroots grain organizations worked in all kinds of weather, their bodies covered with sweat on sunny days and plastered with mud on rainy days. They shuttled back and forth among production teams doing a lot of hard work in helping production teams store and use grain to provide for the daily life of the masses. They got the masses to weigh and move into storage the grain that they had harvested and threshed, and they verified grain output, enabling the equitable distribution of limited grain. They also frequently went to rural production teams to find out the grain production, purchase, sales, and retention situations as well as the masses' living circumstances. They conducted planning for propaganda and education in the use and conservation of grain, helped production teams select seed grain to be kept, set up grain storage organizations, summarized and spread experiences in grain storage, passed along grain storage techniques, doing a good job in rural grain storage work.

CPC and people's government strengthening of leadership in grain production and distribution work played a very great role in reversing the difficult situation. By 1963, the grain situation began to take a turn for the better.

## *II. Curtailment of Grain Sales To Lighten the State's Grain Burden*

Faced with a situation of continued tremendous decline in agricultural production that occasioned an extreme shortage of grain supplies throughout the country, the CPC Central Community resolutely adopted a series of major measures including reducing the population of cities and towns, restructuring and curtailing the amount of grain sold in cities and the countryside, and loan sales of grain to rural villages.

### (1) Lowering Grain Ration Standards for the Urban Population

In September 1960, the CPC Central Committee issued "Instructions on Restructuring of Urban Grain Sales and Lowering of Grain Ration Standards for the Urban Population" in a decision to lower grain ration standards for urban residents at once. The overall principle for grain supply to cities was a combination of reduction and maintenance. Specific measures were as follows: a) Grain ration standards for urban people were to be lowered approximately 2 jin per capita per month. However, for workers in high temperature, high altitude, and mining occupations, as well as workers doing other strenuous physical labor, there was to be no reduction in grain ration standards. Rations were to be maintained. b) The urban population was to be mobilized to go to rural villages; however, this work was to be done in conjunction with making rural living arrangements. Checks of the population, checks on the kinds of work, and checks on grain ration amounts were to be conducted in an intensification of population control, with strict enforcement of the grain control system. All loopholes for making fraudulent applications and claims and the wasting of grain were to be plugged to cut down on all unnecessary grain subsidies. Institution of a strict system of supplying grain against grain ration coupons to city food and beverage businesses, and for making pastries and other grain products, collecting grain coupons for all grain needed for food. c) Grain ration standards for the far out suburbs of large cities were to be the same as for rural areas in general. Some special preference in grain rations were to be accorded peasants growing vegetables in close-in suburbs; however, their rations were to be close to those in far-out suburbs.

In accordance with the foregoing CPC Central Committee instructions and grain departments' requirements for the strengthening of city and town grain supply plan controls and the perfection of supply systems, all provinces, autonomous regions, and municipalities under direct central government jurisdiction carried out a general restructuring of grain supply to cities. They reduced grain ration standards, reduced inequitable grain supply, and strictly enforced a grain control system, achieving fairly good results. For example, the Beijing Municipal CPC Committee established the "Grain Restructuring Office," which carried out grain restructuring throughout the city. The municipal CPC committee secretary, Liu Renqin [0491 0088 6024], convened a mobilization meeting of leaders in central government, municipal, district, and county organs and public agencies at which he relayed the spirit of CPC Central Committee instructions. The municipal CPC committee secretary responsible for financial and trade work, Fan Rusheng [5400 0320 3932], personally contacted all departments, committees, and offices, and all systems for individual study of implementation of instructions on grain cutbacks, calling upon CPC committees and all levels in the CPC to insure fulfillment of quotas. Following 3 months of restructuring, 2.44 million people throughout the city cut back their grain

rations by 8.23 million jin in a 3.3 jin per capita cutback. In addition, verifications of population, verifications of kinds of employment, and abolition of unfair grain assistance cut back grain supply by 5.3 million jin per month. Together, the two measures reduced the supply of grain by 13.53 million jin per month. On the basis of a citywide population of 4.5 million receiving grain rations, this amounted to a cutback of 3 jin per capita per month.

Simultaneous with restructuring of urban grain sales was cutbacks in standards for the amount of grain that rural villages kept. In "Instructions on Lowering Rural and Urban Grain Ration Standards" from the CPC Central Committee in September 1960, the following was stipulated on the basis of different circumstances: Standards for rural grain retention were to be maintained at 360 jin of raw grain per capita for the whole year from south of the Huai He to the Zhu Jiang basin, somewhat less for disaster areas. Bumper crop areas could increase the amount slightly; however, the maximum was not to exceed 400 jin of raw grain. For areas north of the Huai He, the ration was to be cut to approximately 300 jin of raw grain per capita for the whole year. For frigid areas such as northeast China, the amount could be somewhat higher. For major disaster areas in all provinces, the amount was to be reduced to less than 300 jin per capita. Subsequently, in "Several Regulations on Grain Work During 1961-1962," which was issued in September 1961, the CPC Central Committee said that the state would generally not supply additional grain to grain short production brigades in grain producing areas. The problem could be solved by evening out surpluses and shortages between one production brigade and another, or between one commune and another. The principle to be followed in such evenings out should be: voluntary participation for mutual benefit, exchanges of equal value, lending and repayment, repayment of what was loaned, and no egalitarianism and indiscriminate transfer of resources. Both parties were to sign agreements and conduct affairs strictly in accordance with agreements. This method for evening out surpluses and shortages that communes and brigades collectively organized locally solved the grain shortage in some communes and brigades and reduced the state's grain burden.

### (2) Reduction of City and Town Population

In order to readjust relationships between cities and the countryside, increase the rural workforce, revive agricultural production, and reduce the country's grain burden, from 1961 through 1963, the CPC Central Committee took major actions to reduce city and town population and to retrench staff members and workers in organizations. At the work conference that the CPC Central Committee convened in Beijing in May 1961, Chen Yun delivered a speech on the retrenchment of staff members and workers, and the movement of city populations to the countryside. He said that during the following year the amount of grain in the hands of the state would be less than currently inasmuch as the amount of grain in



storage would be less, and there would be no grain in storage to be tapped in the following year. It had to be acknowledged that mobilization of urban populations to go to the countryside was a very difficult task. Nevertheless, unless this was done, even more serious problems and difficulties would arise. A decision had to be made to mobilize urban populations to go to the countryside, and it was better to make this decision earlier rather than later. Only by so doing could the whole situation be stabilized and the uplifting of agriculture be assured. Following the meeting, the CPC Central Committee drew up "Nine Methods Pertaining to Reduction of City and Town Populations and Curtailing City and Town Grain Sales." The main points in this regulation were as follows: A) The CPC Central Committee called upon CPC committees at all levels, primarily all central bureaus and CPC committees in all provinces, autonomous regions, and municipalities under direct central government jurisdiction personally to lead the reduction of city and town population, conducting a full political mobilization, and carrying it out in a planned, step-by-step way in groups over a period of time. Within a period of 3 years, a reduction of 20 million or more was to be made in the 1960 city and town population figures, at least 8 million of them in 1962, and winding up during the first half of 1963. B) City and town population reduction was to be done in conjunction with curtailment of the amount of grain sales. Grain sales to cities and towns during the 1961-1962 period were to be cut to between 48 and 49 billion jin, 3 to 4 billion jin less than in the previous year. C) Central and local authorities were to verify city and town population figures, ferret out the population that had entered from elsewhere and lacked household registration, making sure that population and grain figures corresponded with each other. Making fraudulent applications and claims, and the practice of graft and corruption were strictly prohibited. In order to solve the grain problem, and to enable the state as well as communes and brigades to have grain reserves, the policy of a low standard for grain rations, melons and vegetables substituting for grain was to continue in effect throughout the country for the next 3 to 5 years. D) During the 1961-1962 grain year, no increases but only appropriate decreases were to be permitted in the grain ration standards for city and town populations. The rations of personnel in shut down and semi-shut down enterprises and public agencies were to be lowered somewhat, the extent to which they were to be lowered being decided by individual provinces, autonomous regions, and municipalities under direct central government jurisdiction. There were to be no cuts in grain ration standards for personnel in enterprises or public agencies working full time. Following verification, ration standards for workers doing heavy labor in these enterprises and public agencies were to be set by individual provinces, autonomous regions, and municipalities under direct central government jurisdiction. E) In order to recover to the grain output level of 1957 during the succeeding 3 years (1961 through 1963), both central and local authorities were to work out plans

for industry and business support to agriculture simultaneous with the rectification of incorrect work styles and the rectification of society.

In order to give substance to the foregoing measures, on 16 June 1961 the CPC Central Committee further issued "Emergency Instructions on the Verification of Urban Population and Grain Supply," which provided that during the one and one-half months between that time and the end of July, a thorough census was to be conducted to verify population figures and grain supply figures in cities and towns throughout the country, particularly in 183 large- and medium-sized cities. The instruction specifically required the following: 1) Checks to verify population figures, grain to be issued strictly in accordance with actual population figures, one ration per person, the figures for population and grain tallying. Fall reporting of population figures and fraudulent applications and claims were to be halted. 2) Checks to verify grain rations, grain standards being set strictly according to the intensity of labor and the age of each individual, putting an end to the situation in which those performing light labor had the ration of those performing heavy labor, and those at a low standard ate rations at a higher standard. 3) The number of people and the amount of grain rations of both collectively registered units (enterprises, public agencies, organizations and schools), and scattered households (residents in general) were to be verified, the emphasis being placed on collectively registered units. 4) The grain use plans of food and beverage enterprises, and all supplementary grain sales were to be verified, every effort made to conserve grain. 5) All loopholes in the control of grain, such as corruption, theft, and waste were to be brought to light and plugged, a complete grain control system being perfected. On the 28th of the same month, the CPC Central Committee further issued "Notice on Various Problems in the Retrenchment of Staff Members and Workers," which identified the main targets in the retrenchment of staff members and workers as being new staff members and workers from rural villages who had begun to work since January 1958. They were to be mobilized to return to their individual family villages to take part in agricultural production. In order to keep on top of how well each jurisdiction carried out the foregoing measures at all times, the CPC Central Committee sent work teams to all provinces, autonomous regions, and municipalities under direct central government jurisdiction for joint study and cooperation with local authorities.

Implementation of these actions very quickly produced a nationwide mass fervor for going up to mountains and down to the countryside, support for agricultural production, going in for agriculture in a big way, and going in for grain production in a big way, producing remarkable results. In 1962, the commodity grain eating non-agricultural population nationwide dropped to 109.41 million versus 136.35 million in 1960, a 26.94 million decrease. Meanwhile, the agricultural population had increased from 525.72 million in 1960 to 563.54 million in 1962, a 37.82 million increase. The decrease in the

urban commodity grain eating population, and the increase in the rural workforce spurred revival of agricultural production for a lightening of the state's grain burden. During this period, city people actively responded to a call, enterprises, public agencies, official organizations, official bodies, and street residents' committees organizing staff members and workers, and residents for self-assessment and public discussion of further reduction of grain ration standards. Use of grain by industries and businesses was also curtailed, substitutions to conserve industry use of grain being vigorously promoted. All these actions enabled a reduction in grain sales nationally from 96.7 billion jin in 1960 to 68.5 billion jin in 1962, a 28.2 billion jin decrease. This included a reduction in sales to the nonagricultural population in cities and towns from 63.1 billion jin in 1960 to 47 billion jin in 1962, a 16.1 billion jin reduction. Agricultural sales were reduced from 33.6 billion jin in 1960 to 21.4 billion jin in 1962, a 12.2 billion jin reduction. In 1960, China had a net deficit of 15.6 billion jin of grain after balancing receipts against expenditures, plus a net export of 2 billion jin for a total deficit of 17.6 billion jin, which was made up from grain in storage. Following reduction of the city and town population, and curtailment of grain sales, the net grain deficit in 1962 was 5.5 billion jin after offsetting receipts against expenditures. After importing 8.9 billion jin of grain, the country had a 3.4 billion jin balance on hand for replenishment of reserves in storage.

### (3) Institution of the Loan Sales System in Rural Villages

Simultaneous with the balancing out of surpluses and shortages of grain in rural villages after 1961, the state also provided loan sale grain to production teams that were truly in a difficult position temporarily though they would be able to repay the grain subsequently, and who had been unable to get out of their difficult situation entirely through the evening out process. When their harvest was better during the following quarter or the following year, they repaid the state. When instituting this method, attention was given to the following several problems: First, the country would not make loan sales to any team able to solve its problems through the evening out of surpluses and shortages. Loan sales of grain were to be included in the total sales quotas for each jurisdictions. The sales quotas could not be increased, a larger amount of grain sold. Second, all loan sale grain had to be returned, receipts being issued. Grain could not be loaned and forgotten; diligent efforts had to be made to recover it. In addition, production teams could not offset loan sale grain repayments against their requisition procurement quotas. Third, grain short production teams in cash crop areas, grain short production teams in major disaster areas, and pastoral regions were to get grain through monopoly sales. They were not eligible for loan sales.

Since this method was both fair and reasonable, grass-roots cadres and commune members in the far flung rural villages accepted it. Practice demonstrated that this method played a definite role in making the reduced

sales of grain fair, in stabilizing the grain situation, and in promoting agricultural production. Liaoning Province summarized its work in grain loan sales as having the following benefits:

1) After instituting grain loan sales to disaster stricken areas, lending it in lean years and recovering it in fat years, each year the state was able to recover a portion of the grain that it loaned for sale, adding to the state's grain receipts. During 1962 and 1963, Liaoning Province loaned a total of 243.03 million jin of grain, 30.7 million jin, or 12.6 percent, of which it recovered by 1963. Though the amount of grain recovered was not large, it played a positive role in remedying the country's grain shortage and stabilizing the grain situation.

2) Loan sales differed from monopoly sales in that loan sales had to be repaid. This made the masses plan grain use and conserve grain use since the state might sell them less grain. Some communes in Xingcheng County originally reported a 290,000 jin grain shortage between July and September 1972, which they asked the state to supply. As a result of the adoption of the loan sales system, the communes requested loan sales of only 150,000 jin. Commune members in Xinjin County said, "Borrowed grain has to be returned after the autumn harvest; it is better to eat less and use grain thriftily so there is a smaller hole the following year!" Rural grain sales for all of Liaoning Province were 340 million jin less in 1963 than in 1962 largely because of the institution of the loan sales system.

3) State loan sales of grain to needy production teams maintained production, stabilized commune members' lives, and cemented relations with the masses. The masses said, "This is a good system. When we are in need, the state helps us with loan sale grain; when our production has improved, we return it to the state. When borrowed grain is returned, it is not difficult to borrow again." In 1962, the state made a loan sale of 11,500 jin of grain to Beijiagtun Production Team in Xicheng Production Brigade of Pikou Commune in Xinjin County. The 1963 autumn harvest was a bumper one, so the state asked them to return 7,000 jin of the grain that year. The commune members discussed it and said: "When you have water to drink, you should not forget those who sank the well. This year our harvest is a good one thanks to the Communist Party." They returned every bit of the 11,500 jin of loan sale grain, clearing the account.

Nevertheless, failure to manage matters carefully caused some problems in loan sales grain work. For example, some places handled matters too loosely. Units borrowed grain when they were not entitled to borrow it; some borrowed more than they were entitled to borrow, and there were even cases of laxity in recovering grain after it had been borrowed; consequently the country sustained losses. Some places controlled things too tightly, refusing to lend grain when they should have, thereby hurting the masses' livelihood.

### *III. Strengthening the Domestic Grain Allocations and Grain Transfers To Insure Military and Civilian Supplies*

For 4 years in a row beginning in 1958, the state's grain receipts were less than disbursements; the amount of grain in storage became increasingly scant. Greater centralization of allocation and transfer work became increasingly important in order to balance grain surpluses and shortages between one area and another to insure market grain supply.

Foremost in this centralization was CPC Committee strengthening of the leadership of this work. CPC Central Committee "Instructions on Effective Curtailment of Grain Sales" issued on 21 April 1959 said, "The situation during this period requires that the principle of greater centralization must be instituted in the leadership of grain work. All the allocation and transfer orders that the CPC Committee has issued must be resolutely implemented. This is positively necessary in order to concentrate forces to deal with the difficult situation." On 27 April of the same year, Li Xiannian said the following at the All-China Conference of Finance and Trade Secretaries: "In order to stabilize the current grain situation, the CPC Committee has proposed a system of 'one cutback, two readjustments, and three matches.' By this is meant reasonable cutbacks of urban sales, resolute fulfillment of allocation plans, matching of different kinds of grain, and urging people to eat whatever is available." Later on in a speech to a meeting that the CPC Committee convened in Shanghai, he stressed the following: In order to forestall temporary failure to make deliveries on time resulting in the depletion of stocks and loss of confidence, when the need is urgent, the CPC Central Committee and the State Council may make ad hoc shipments of some grain from provinces and regions in which differential allocations have been fulfilled when there is a substantial amount of grain in storage, and in which transportation is fairly readily available.

Good planning of grain allocations during the hardship period generally required the building of three "defense lines" beginning with consultation between the Minister of Grain and local governments. This was followed by discussions between the CPC Committee secretary in charge of finance and trade work and the Premier of the State Council himself. For grain allocations of 10 million jin or more, the premier personally rendered the ultimate decision. After 1959, not only were annual allocation plans handed down by the CPC Committee and the State Council, but quarterly allocations were also prepared and handed down by the CPC Central Committee. By 1960, the CPC Central Committee also notified CPC committees at all levels to execute numerous monthly allocation plans. Ministry of Grain personnel in charge usually presented oral reports on the execution of grain allocation plans to the CPC Central Committee and the State Council, simultaneously forwarding tables showing progress every 10 days (or sometimes every 5 days) on annual grain allocation plans. By 1961, not only was there an increase in the importation of grain for which the central authorities arranged allocations, but there was also a great increase in

the grain used for special purposes that the central authorities expended. The situation was extremely complex. Thus, State Council Premier Zhou Enlai personally designed a "Central Grain Allocation and Transfer Plan Table," which showed the status of allocations among different provinces, and central authorities' expenditures of grain. For more than 20 years thereafter, this table continued to be used to present central authorities' grain expenditure and allocation plans, and to check on the status of their execution.

Second was the transfer of large amounts of grain in storage. For example, when 19 provinces and autonomous regions shipped grain outside their jurisdictions in 1960, not only did 11 of them ship all of the surplus between purchases and sales in accordance with plan, but they also shipped some grain out of storage. Seven of the others made shipments entirely from storage since their current year plans provided no surplus between purchases and sales. During this year, 11 rice producing areas in south China shipped 9.06 billion jin of grain, 7.28 billion jin of which was shipped from storage. Notably, during the 3 year period from 1958 through 1960, Sichuan Province shipped more than 4.7 billion jin of grain from storage, including more than 2.5 billion jin in 1960. During this same year, Heilongjiang Province also shipped more than 1.8 billion jin from storage.

Third was seasonal reallocation. This was done for 5 consecutive years from 1958 through 1962. During that period, grain in storage throughout the country was meager and unevenly distributed between one area and another. Consequently, at summer and autumn harvest time each year, early crop wheat and barley, and early crop paddy from the south were shipped to the northeast to provide grain for markets in the northeast before the autumn grain crop was brought in. (This was known as "using the early to help the late.") Later on, in the winter and the spring, late grain crops from the northeast were shipped in reverse to grain-short areas south of the Great Wall to relieve the dearth of grain in the spring. (This was known as "using the late to help the early.") During 1961 and 1962, these seasonal grain shipments among provinces occupied 12.3 percent of the total interprovince transportation. This included the increased interprovince shipments of 2.63 billion jin of grain from Jilin and Heilongjiang Provinces in 1961 as part of the seasonal reallocation of grain supplies. This system of "using the early to help the late," and "using the late to help the early" during the same year played a positive role in assuring grain supplies for the armed forces and the civilian population. This was essential during this period of grain difficulties. Nevertheless, this way of doing things wasted transportation and increased costs causing economic losses. It also hurt the livelihood of the people of northeastern China to a certain extent. Thus, once the grain situation improved in 1963, it was stopped.

### *IV. Importing Grain To Ease the Tension Between Supply and Demand*

The bad effect on grain work of the high quotas and the tendency toward exaggeration in agricultural production

during the "Great Leap Forward" showed up not only in the high requisition procurement of grain, but also in the grain import-export trade. For 3 consecutive years beginning in 1958, the large amounts of grain exported exceeded the country's capacity to bear them. These exports included the net export of 6.5 billion jin in 1958, a 73.1 percent surge over 1957; a net export of 9.48 billion jin in 1959, a 45.9 percent increase over 1958, and 2.5 times again the amount exported in 1957. When the discrepancy between the country's grain receipts and expenditures became very conspicuous in 1960, the originally set grain export plans were scaled down and delayed, but net exports for that year still amounted to 2 billion jin. The export of so much grain during these 3 years worsened the country's grain difficulties. In large cities and important industrial and mining areas, in particular, granaries were depleted. The danger of running out of supplies was omnipresent. The situation was extremely urgent. Consequently, at the end of 1960, the CPC Central Committee decided to import grain beginning in 1961. At a conference that the CPC Central Committee convened in Guangzhou on 20 March 1961, Li Xiannian said: "It has been decided to import 5 million tons of grain this year, and next year another 3.5 to 4 million tons will have to be imported. It appears that some imports will also be necessary during the year after that." He also pointed out that grain imports during the next 2 years were mostly to "ease relations between the city and the countryside, and to encourage peasant enthusiasm for production. These imports will slow the speed of construction of some industries for a time; however, in long-range terms, the development of agriculture will benefit the development of industry even more. This is consistent with the central government's policy of 'readjustment, consolidation, filling out, and raising standards.'" At a conference on foreign trade convened in May of the same year, Chen Yun said: "Priorities in solving the domestic market supply problem are food first and clothing second. For food, the priority is grain first and non-staple foods second." "The key to stabilizing markets is the importation of some grain...Bringing in grain is an important matter affecting the whole situation. Grain imports will make it possible to take less grain from the peasants, to calm the peasant's feelings about production, and to increase peasant enthusiasm for production. By developing agricultural production for 2 or 3 years, the country's market problems can be solved." Obviously, the CPC Central Committee's decision to import large amounts of grain was not solely to remedy the grain shortage, but was also an integral part of the implementation of the eight character policy of "readjustment, consolidation, filling in, and raising standards" in the national economy.

This major policy of the CPC Central Committee resulted in the founding of the Central Import Grain Receipt and Transportation Work Group. (Corresponding organizations were also set up in all ports). This group worked together with departments concerned in active implementation of the policy. In February 1961, the first imported grain ship arrived at a Chinese port.

During this quarter, 1 billion jin of grain was imported. During the second quarter 3.3 billion jin was imported. The "rush transportation inland of 2.15 million tons (4.3 billion jin) before 30 June 1961 for use at 'crucial points' avoided the danger of running out of grain supplies in Beijing, Tianjin, Shanghai, Liaoning, and major disaster areas."<sup>2</sup>

Calculations show the importation of a total of 54.7 billion jin of grain from the 1961 through 1965 grain years, an average of 10.94 billion jin per year. During this same period, a total of 12.7 billion jin of grain was exported, an average of 2.54 billion jin per year. After offsetting imports against exports, a net total of 42 billion jin of grain was imported during this period, or 8.4 billion jin per year. Imported grain was also used in many different ways during this period as well. During 1961, all of it was used to remedy the deficit between domestic grain receipts and expenditures; in 1962, some was used to replenish the amount in storage; and in 1963 and thereafter, it was mostly used to replenish grain in storage.

The paring of exports and the increase in imports eased the conflict between supply and demand for grain, and assured supplies of grain for the people in cities and in industrial and mining areas as well as grain needed by industries and businesses; it also stabilized markets. It also played a very good role in reducing the amount of state requisition procurement of grain from communes and brigades, reduced the peasants' burdens, assisted agricultural production, and advanced the revival of cash crops.

#### *V. Reform the Grain Management System To Enhance Centralized and Unified Control*

From 1953, when the monopoly purchase and sale policy for grain was instituted, until March 1958, China's grain management system was one of centralized and unified control. As a result of the victorious fulfillment of the First 5-Year Plan, the national economic system was very good, and productivity developed fairly fast. In order to meet needs in the developing situation during the Second 5-Year Plan and help stir local enthusiasm, following CPC Central Committee approval, the existing centralized and unified method used in controlling the grain management system was changed to "control of the differential between purchase and sales price, assigning responsibility for allocations." By this was meant a system of level by level assignment of responsibility to balance allocations. This consisted primarily of the following: (1) central government exercise of differential control over the requisition procurement of grain in all provinces, autonomous regions, and municipalities under direct central government jurisdiction, meaning that all surpluses or shortages remaining after offsetting state set requisition procurement figures against sales figures were the responsibility of the local governments, the local governments being responsible for fulfilling set surplus amounts or shortages that did not go beyond set amounts. The central government centrally set the

amount of each jurisdiction's grain procurement and the amount of its grain sales. Local jurisdictions were empowered to readjust these amounts as local circumstances required, reporting the changes to the central authorities for the record. (2) All surplus grain remaining after all provinces, autonomous regions, and municipalities under direct central government jurisdiction fulfilled central government-set differentials reverted to the control and discretionary use of local jurisdictions. Provinces, autonomous regions, and municipalities under direct central government jurisdiction could set up local granaries. (3) All grain in state granaries was under centralized control of the central government for its unified allocation, except for the grain that local jurisdictions could use at their discretion. Local authorities were required to continue to carry out state unified grain storage plans and grain allocation plans.

These provisions reflected the important changes in the grain management system from a high degree of centralization in the hands of the central government to an appropriate delegation of authority to local governments under unified central government leadership. Under ordinary circumstances, these reforms should have helped advance the building of socialism. However, because of the tremendous decline in grain production beginning in 1959, and the increasing difficulties in grain distribution, grain could not be allocated as usual throughout the country, nor could the system of "control of the differential between purchase and sales price, and assignment of responsibility for allocations" be implemented. By way of enhancing unified grain allocations and adjusting the correlation between requisition grain procurement and marketing plans, in August 1960 the CPC Central Committee forwarded "Views on Setting Forth Social Grain Requirement and State Grain Receipt and Disbursement Allocation Plans for 1960-1961" from the Ministry of Grain Leading Party Group, which contained the following several provisions: (1) Revolving storage grain throughout the country must be uniformly allocated by the central government in order for the central government to be able to respond to emergency requirements. (2) Should all provinces, autonomous regions, and municipalities under direct central government jurisdiction be genuinely able to bring the volume of grain sales below central government-set plan, they could correspondingly reduce the amount of requisition grain procurement. However, such reductions would not reduce central government-set differentials between purchase and sale prices, nor could they impair fulfillment of central government quotas. (3) Should central government-set quotas be deemed too low, the amount of grain procurement might be suitably increased for use in increasing grain sales suitably. However, the purchase of too much grain was not permitted. Until the increased purchases of grain were in hand, sales positively could not be expanded. (4) If, as a result of the implementation of central government plans, provinces, autonomous regions, and municipalities under direct central government jurisdiction bought too much or sold less grain than planned in any

given year, a grain surplus resulting, unless the central government and the local government decided otherwise, the surplus grain reverted to the local government for distribution as it saw fit.

The foregoing several regulations supplemented the system for level-by-level assignment of responsibility, and the balancing of allocations. They were intended to respond to the grain shortage that was already beginning to appear at that time.

A report from the State Council Finance and Trade Office to the CPC Central Committee in July 1962 explained that the state had further reduced the requisition procurement of grain from the peasants, that grain receipt and disbursement plans were tightly drawn, and that there was little grain in storage in the country so there was no room for maneuver. Given these circumstances, only by changing the prevailing level-by-level assignment of responsibilities to balance allocations, concentrating in the central government authority to purchase, sell and allocate grain, the central government fairly and promptly making unified allocations nationwide, was it possible to effectively control the amount of grain sales to cities and the countryside, and shorten the differential between the amount of grain that the state had to dispense being greater than the grain that could be obtained through requisition procurement. This was also the only way to bring about a balance between receipts and disbursements of grain in accordance with state plan. In September of the same year, the CPC Central Committee issued "Decisions on Grain Work," (abbreviated to "The Decisions"), on the basis of a report from the State Council Finance and Trade Office, and views from discussion of the grain problem at an August CPC Committee work conference. "The Decisions" provided that beginning in 1962, the prevailing level-by-level assignment of responsibility to balance allocations was to be changed in the further centralization and unifying of state control over grain, grain procurement, marketing and allocation throughout the country being uniformly arranged by the central government with level-by-level control. The specific methods were as follows:

(1) Unified procurement: Grain procurement plans were to be uniformly set by the central government. Until such time as the central government decided on a nationwide requisition grain procurement plan, no jurisdiction could work out arrangements with subordinate units. Once the central government decided on a nationwide grain requisition procurement plan, all jurisdictions would have to insure fulfillment. If plans had to be readjusted because of changes in the year's harvest, central government approval was to be requested. The percentage of Province, autonomous region, and directly administered municipality discretionary grain levies were to be consistent with central government prescribed guidelines. Should other means be required to make up shortages in lean crop areas from surpluses in bumper crop areas, central government approval had to be sought.

(2) Unified sales. All annual grain marketing plans were to be uniformly set by the central government. Should provinces, autonomous regions, and municipalities under direct central government jurisdiction have to readjust these plans, central government approval was to be requested. Grain to be used for designated purposes was to be gradually made a part of marketing plans.

(3) Unified allocations: Once centralization and uniformity with level-by-level management was instituted, fulfillment of allocation plans would have to continue to be assured. Not only were state allocation plans to be fulfilled promptly and in the prescribed amounts, but also in the prescribed kinds of grain and at prescribed quality. Annual and quarterly interprovince allocation plans were to be uniformly prescribed by the central government. Monthly allocation plans were to be decided through discussions between the Ministry of Grain and grain departments or bureaus in provinces, autonomous regions, and municipalities under direct central government jurisdiction. Insofar as possible, the reallocation of grain varieties among provinces was to be made a part of central government allocation plans. Reallocations outside plan were to be made only so long as nationwide unified allocation plans were fulfilled so that national allocation plans would not be impaired. Ad hoc allocations also had to be reported and planned, the Ministry of Grain handling the matter.

(4) Level-by-level control. So long as they insured fulfillment of requisition grain procurement and marketing plans and quotas for deliveries to the central government for the whole region, or insured that quotas for shipments into the whole area were not exceeded, all central government bureaus had authority to readjust the grain requisition procurement, sales, and allocation quotas for all provinces, autonomous regions, and municipalities under direct central government jurisdiction in the region, reporting such readjustments to the central government for the record. All provinces, autonomous regions, and municipalities under direct central government jurisdiction had the following authority with regard to grain: 1) To accept central government mandate for unified management of grain in storage. 2) To administer and control surplus grain resulting from excess procurement or reduced sales. 3) Unified management of revolving grain. The term revolving grain was used here to mean grain that peasants used in exchanging different grain varieties, and grain that peasants had to sell because they lacked money at the time, only to buy it back later. The scope of revolving grain was not to be expanded. 4) Once annual marketing plans were decided, quarterly marketing plans were to be made by all provinces, autonomous regions, and municipalities under direct central government jurisdiction. Plans could be made with lower level jurisdictions while reporting to higher authority. However, when arranging plans with subordinate jurisdictions, it was to be made clear than should the central government so direct, they would have to be readjusted.

When the central government mandated provinces, autonomous regions, and municipalities under direct

central government jurisdiction to exercise unified control over grain in state granaries, provinces, autonomous regions, and municipalities under direct central government jurisdiction had to insure central government access to the grain for shipment at any time. Grain designated as belonging to provinces, autonomous regions, and municipalities under direct central government jurisdiction, but that was under the unified control of state granaries had to be listed separately and reported at the end of the year. Small granaries for it were not to be set up. "The Decisions" also provided that for convenience in figuring the requisition procurement and allocation of grain, beginning in 1962 the grain plan year and the grain production year would be one and the same, i.e., the old grain year, which ran from 1 July of the current year to 30 June of the following years, was changed to the new grain year running from 1 April of the current year to 31 March of the following year.

The above grain system reforms were put into effect under special conditions when grain production had been seriously damaged, output had declined dramatically, the conflict between supply and demand was extremely glaring, and allocation and transfer was extraordinarily difficult. Practice demonstrated that in a situation of serious grain shortage, this was the only way to concentrate limited grain resources for allocation to the most needy places in order to insure the basic requirements for grain in the people's livelihood, and the building of the socialist economy.

#### *VI. Establishing National and Social Grain Reserves*

During the period of hardship following the "Great Leap Forward," people gained a more profound understanding of the significance of grain reserves. At the National Conference of Finance and Trade Secretaries that the CPC Central Committee convened in February 1960 to focus on the meager revolving grain stores and allocation difficulties, Li Xiannian said that all levels should put a little grain into storage. The conference of Finance and Trade Secretaries from 16 provinces, autonomous regions, and municipalities under direct central government jurisdiction, which the CPC Central Committee convened in May 1960, discussed rural grain administration problems. Everyone agreed unanimously with the need to proceed with caution on grain distribution, augmenting grain supplies in grain short areas and in lean years with grain supplies from bumper areas and in fat years for the gradual building of grain reserves. This strategic issue was to be given serious attention for conscientious solution. The goal was for the state to have reserves and communes and basic accounting units to have reserves, a little grain being put by each year for a year-by-year increase in reserves. Acting in the spirit of the foregoing, a small quantity of reserve grain was established under direct Ministry of Grain control through allocations beginning in the first quarter of 1961. All of it was located in the three large cities of Beijing, Tianjin, and Shanghai, and it could not be

touched without explicit approval of the CPC Central Committee and the State Council. Although the amount was not large, this reserve grain played an important reserve role in guarding against the depletion of grain stocks in Beijing, Tianjin, and Shanghai. From this time forward, when the state drew up national grain purchase and sale plans each year, a certain amount of grain was always kept in reserve.

At the same time, energetic efforts were devoted to developing social grain reserves. CPC Central Committee "Decisions on Grain Work," issued in September 1962, clearly stated the following with regard to the establishment of commune and brigade reserve grain: "Beginning with this year's autumn harvest, the system whereby communes and production brigades withhold grain for emergency use, and grain for self-financing is to be abolished in order to lighten the burdens of production brigades and commune members, the better to fulfill state requisition procurement quotas. Production teams will themselves be permitted to retain a certain percentage of reserve grain. Production brigades or communes that are basic accounting units may retain a certain percentage of reserve grain." CPC Central Committee "Instructions on Grain Work" of October, 1963, reiterated: "Equitable distribution and conservation of grain should provide a basis for gradual increase in national grain storage, and collective and individual grain reserves, the state, production teams and households gradually acquiring surplus grain." The instruction also specifically provided that should some production teams experience difficulties in storing grain, they could commission grain departments to store it for them. Either grain could be taken to pay for storage, or they could pay a sum to grain departments at the time the grain was stored, and pay an additional sum when the grain was removed from storage.

In October 1965, the CPC Central Committee and the State Council instructed that "Grain departments should actively guide and assist production teams in administrative systems for establishing reserve grain, and pass along grain storage techniques." Acting in the spirit of the CPC Central Committee and the State Council instruction, the Ministry of Grain conducted surveys and studies as a basis for providing recommendations on withholdings, control, and use of rural collective grain reserves. The State Council ratified and forwarded these recommendations to all provinces, autonomous regions, and municipalities under direct central government jurisdiction on 28 October 1965 for implementation. The gist of them was as follows:

1) A clear statement of who owns the grain and who may use it, no other units or individuals being allowed to transfer it indiscriminately or encroach upon it.

2) The state could not arbitrarily increase assigned procurement and requisition procurement quotas unrealistically because production teams possessed reserve grain, and production teams positively could not stop

striving to fulfill state requisition procurement quotas because they had reserve grain.

3) When production teams ran short of grain as a result of disasters, they were to use their own reserves first to solve the problem. When they were genuinely unable to solve their problem, the state was to supply them appropriately. The grain rations of production teams maintaining reserve grain should be somewhat higher than for production teams that did not have reserve grain.

4) The principle to be followed in withholding grain for collective reserves should be to make different arrangements as the annual harvest and the level of grain rations warranted. More should be stored in bumper harvest years; less in ordinary harvest years; and none in disaster years. More should be stored when conditions were good; less when conditions were poor. When conditions enabling storage did not exist for the time being, conditions might be actively created for further storage later on.

5) Administration and use of collective grain reserves was to be organized under leadership of the CPC, the masses in charge, the poor exercising supervision in cooperation for democratic management. Reserve grain was to be used primarily to supplement stocks of seeds, livestock feed, and commune members' grain rations following a disaster; to solve the grain shortage problem of individual commune members resulting from an irresistible natural disaster; to expand reproduction, or for other purposes as decided through discussion in a meeting of commune members.

6) In places having requisite conditions, production teams should themselves store collective reserve grain. When they were truly unable to do so, grain departments might store it for them.

7) When production teams lacked sufficient funds to store grain, grain departments might "make payment out of stores." When the state stored reserve grain for production teams, it should collect a fair storage fee, deducting an appropriate sum from the storage fee for spoilage. However, in areas that were just beginning to establish collective reserves, if production teams were having economic difficulties, the state might only deduct for spoilage, collecting a little less for storage for the time being.

8) Ways of moving out old collective reserve grain to make way for the storing of new grain included, first, advance issuance of a set portion to commune members as a grain ration; and, second, advance transfer to the state of reserve grain as a part of the state requisition procurement quota, the reserve grain shortage then being made up with new grain following the harvest.

Accompanying establishment of rural collective grain reserves should be encouragement to individual commune members to store their own surplus grain in a reserve, so that production teams accumulated reserves, and individual households had surplus grain. No one



could violate household surplus grain. Production teams could not reduce a peasant households' grain ration because the household had surplus grain.

The year-by-year improvement in the grain situation created conditions for the building of social grain reserves. In accordance with the instructions from the CPC Central Committee and the State Council, beginning in 1963, all jurisdictions throughout the country conducted propaganda and education in the planned use of grain, conservation in the use of grain, storing grain in civilian households, and preparing for war and against famine to spur collective and individual grain reserves. Grain departments everywhere helped production teams collectively store grain, and they stored reserve grain for production teams as an important part of serving production and serving the people's livelihood. The broad masses of staff members and workers in grain departments oriented their work toward rural villages, producing remarkable accomplishments by going into communes and production brigades to provide instruction in grain storage techniques, to do a good job in safe storage, and to help production teams set up and improve grain management systems. When Minister of Grain Sha Qianli [3097 0578 6849] made a speech before the NPC on 3 January 1956, he reported on the status of production team establishment of collective grain reserves. He said: Representative surveys in 17 counties in 15 provinces and autonomous regions showed that 44 percent of all production teams in the 17 counties had grain reserves in 1963. This number increased to 64 percent following the autumn harvest in 1964, the amount of grain in storage more than doubling from 1963. The amount of reserve grain that the state stored for production teams also increased each year. By 1965, reserve grain held in storage by grain departments for production teams throughout the country totaled 4.57 billion jin, more than 1.5 times again as much as in 1964. In addition, numerous commune member households also had surplus grain presenting a scene of "grain in hand banishing worry from the mind; the feet planted firmly on the ground, and the heart jubilant." In 1962, many production teams in Jianping County in Liaoning Province began the collective storage of grain, increasing the amount year by year. When this county experienced a serious natural disaster in 1964 requiring more than 3 million jin of grain for use in the daily life of the people in the disaster area, the reserve grain provided the entire amount, the state not being asked for a single grain.

### Section 3. Readjustment of Policy To Advance Agricultural Production

#### *1. Readjustment of Grain Prices, Instituting Award Sales and Barter Purchase*

In order to promote the revival and development of grain production, encourage peasant enthusiasm for selling surplus grain to the state, and increase peasant income, the state took a series of forceful actions during this period, particularly after 1960. In raising the monopoly purchase price of grain, the state instituted

added price inducements, and used award sales of industrial manufactures, and bartering of industrial manufactures in purchasing grain.

(1) Increase in monopoly purchase prices for grain. Prior to 1958, several readjustment in monopoly purchase grain prices had been made in some areas, and for some kinds of grain. However, for historical reasons and as a result of changes in development of the economy, an unfair situation continued in too low grain prices, and in price parities between one area and another. In order to balance and make more equitable grain prices throughout the country, monopoly grain purchase prices were increased four times from 1958 through 1965. The first time was in 1958, when monopoly grain purchases prices were increased by the equivalent of 3.1 percent nationally in six province and autonomous regions in northeast China, Inner Mongolia, and south China. The second time was in 1960 when monopoly purchase grain prices were increased by the equivalent of 2.6 percent nationally in seven paddy producing regions of south China. The third time was in 1961 when monopoly purchase grain prices were completely readjusted, rising an average 25.3 percent nationwide. The fourth time was in 1965 when monopoly purchase grain prices were again increased in seven paddy producing areas of south China, this time by the equivalent of 1.5 percent of monopoly purchase grain prices nationwide. As a result of the foregoing four readjustments, monopoly purchase grain prices were an average 35 percent higher in 1965 than in 1957.

When monopoly purchase grain prices rose three times between 1958 and 1961, sale prices remained constant. Following the price rise of 1961, a situation occurred in which the purchase price was higher than the sale price. In order to correct this inversion between purchase and sale prices, the sale price of grain was readjusted twice. The first time was in 1963 when the rural sale price for grain was increased to the purchase price level. At the same time, the price of grain used by industrial and business firms in cities and the countryside was also increased to the purchase price level. The second time was in 1965 when the sale price of grain in cities and towns was raised to the same level as the purchase price. At the same time, the state instituted a grain price subsidy policy for staff members and workers. Following the foregoing readjustments, monopoly sale grain prices were an average 9.6 percent higher in 1965 than in 1957. The grain price inversion problem was substantially solved.

(2) Institution of added price inducements in monopoly grain purchases. In order to encourage peasant enthusiasm to produce and sell grain to the state, in addition to the increases in monopoly purchase grain prices, added price inducements were instituted in 1960 and 1965. In October 1960, the CPC Central Committee decided to pay an additional 10 percent of the purchase price for excess purchases from production teams in different areas selling more than 100, 200, and 300 jin of commodity grain (not including soybeans) per capita for the

whole year. (the amount of such grain sales per capita for different areas was as follows; 300 jin or more for Heilongjiang and Jilin provinces, and the Inner Mongolian Autonomous Region; 100 jin or more for Hebei, Shanxi, Shandong, Henan, Shaanxi, and Gansu provinces, the Ningxia-Hui Autonomous Region, and Beijing; and 200 jin or more for all other provinces, autonomous regions, and municipalities under direct central government jurisdiction). As a result of the overall rise in grain purchases prices in 1961, this added price inducement was halted in 1960 after a single year. In order to resolve further the too low returns on grain production, added price inducements were restored beginning with the purchase of the summer grain crop in 1965. An additional 12 percent was paid for every 100 jin of commodity grain (not including agricultural tax grain) per capita per year that production teams or state-owned farms provided. (When grain prices were raised in 1966, this added price inducement was abolished). At the time of autumn grain requisition procurement during the same year, a policy of "no change guaranteed for 3 years" was instituted in connection with requisition grain procurement. This meant that following fulfillment of requisition procurement quotas, half of all excess grain purchased would be paid for with award sales materials, and half with added price inducement, the additional price amounting to between 30 and 50 percent (the specific percentage to be decided by individual provinces, autonomous regions, and municipalities under direct central government jurisdiction. In actual practice, this was no more than 30 percent). Grain purchased using added price inducements and award sales materials was to be turned over to the central government in the same way as requisition procurement quotas, local authorities not being allowed to use it as they pleased.

(3) Award sales of industrial manufactures in the requisition purchase of grain. In order to meet needs in the peasant's daily life, in September 1961 the CPC Central Committee decided to institute award sales of industrial manufactures for commune and brigade grain sales to the state. For every 1,500 jin of grain (trade grain, and the same applies hereinafter) that a production brigade sold to the state, an award sale of 15 chi of cotton cloth, 3 cartons of cigarettes, and 1 pair of sneakers was to be offered. In 1962, this was changed to the award sale of 15 chi of cotton cloth, 1 pair of sneakers, and knitwear equivalent to 2 chi of cotton cloth ration coupons. No industrial manufacture award sales were to be made for the state requisition procurement of agricultural tax grain, revolving grain receipts, or grain to be exchanged for other varieties. In the autumn of 1962, the CPC Central Committee additionally provided for additional award sales of 2.75 shjin of wadding cotton for each 1,500 jin grain purchased in frigid regions of seven provinces and autonomous regions. Other areas received an additional award sale of 4.23 jin of sugar.

(4) Barter purchase of grain for industrial manufactures. In order to encourage peasants to sell grain to the state

after fulfilling state-set requisition grain procurement and assigned procurement quotas, the state thereby being able to have more grain at its disposal, and in order to partially satisfy simultaneously the demands of production teams and commune members in bumper harvest areas to exchange their grain for industrial manufactures, the State Council decided in November 1963 to exchange industrial manufactures in the barter purchase at equal value of grain from peasants. It also announced a barter purchase quota of 1.645 billion jin of grain nationwide for 1963. The specific method used was as follows. Barter purchase grain plans were to be prepared at the same time that requisition purchase and monopoly purchase plans were prepared. In principle, when a county fulfilled its requisition grain purchase and monopoly purchase quotas, grain barter exchange was to begin at once. Those engaging in barter purchase were to be mostly production teams having surplus grain following fulfillment of their requisition grain purchase and monopoly purchase quotas. Individual commune members having surplus exchange could also use some of it in barter purchases. The amount of grain to be barter purchased from production teams and commune members was to be arrived at realistically through full cooperative discussion. Increases in the amount of reverse sales of grain by the state to rural villages as a result of barter sales of grain were absolutely forbidden. Standards to be used for the exchange of grain and industrial manufactures were as follows: For every 4 jin of fine grain (husked rice, wheat, soybeans, or millet) purchased, 1 shichi of cotton cloth was to be supplied (cotton cloth ration coupons issued). Alternatively, 1 jin of chemical fertilizer was supplied for each jin of fine grain purchased. Other industrial manufactures having a monetary value equivalent to the grain purchased might be supplied. If coarse grains (corn and sorghum) were used in barter purchases, standards for the supply of industrial manufactures were figured in terms of 1.5 jin of coarse grain equaled 1 jin of fine grain. When grain was purchased from individual commune members through barter purchase, only cotton cloth coupons were issued; no chemical fertilizer was supplied. In response to this State Council decision, all jurisdictions actively took part in barter purchases of grain. Since chemical fertilizer was urgently needed for production, and since cotton cloth was in short supply, this barter purchase of grain was well received by the peasantry.

## *II. Implementation of Purchasing and Marketing Less Grain To Change the Situation in Which the Same Production Brigade Buys and Also Sells Grain*

In order to solve the problem that occurred during the "Great Leap Forward" when high grain output estimates and high requisition procurement resulted in reverse sales following purchases, the CPC Central Committee decided to take decisive action for a period of time, instituting reduced purchase and reduced sales. "Several Regulations on Grain Work During 1961 and 1962" that the CPC Central Committee issued in September 1961 said that "As a result of overly high output estimates and

excessive requisition procurement, the volume of sales increased. This, plus the excessive urban population increase necessitated the tapping of grain in revolving storage." Thus, there was no choice but to buy less and sell less, making this the year of smallest requisition procurement quotas and rural sales since institution of monopoly purchase and monopoly sales. The regulations also pointed out that "This is a temporary measure, both purchases and sales will increase appropriately in the future for a gradual increase in both revolving storage and reserves as grain output increases." At the work conference that the CPC Central Committee convened in August 1962, Mao Zedong reiterated: "This year's grain plans call for somewhat smaller purchases, somewhat smaller sales, somewhat larger assignments to the central government, somewhat smaller imports, and greater tapping of local potential."

Since all jurisdictions conscientiously carried out the policy of reduced purchases and reduced sales, results were quick in coming. The enforcement picture in 1962 showed requisition purchase of 76.3 billion jin (of raw grain, and the same applies hereinafter) versus an average requisition procurement of 108.8 billion jin for the 4 year period 1958 through 1961 for a 30 percent decrease. Requisition procurement as a percentage of output fell from 32 percent for the previous 4 years to 24.7 percent. Rural monopoly sales of grain stood at 24.86 billion jin in 1962, a 30.7 percent drop from the average requisition sales figure for the 4 years between 1958 and 1961. Rural village grain retention averaged 457 jin per capita, up 44 jin from 1961 for a substantial correction of the errors of the previous several years of high requisition procurement being followed by high reverse sales to peasants.

By way of further implementing the policy of "reduced purchases and reduced sales," in October 1963 the Ministry of Grain issued another notice calling on all jurisdictions "to take steps to effect a change in the situation in which the state both purchased grain from and sold grain to the same production team." There were many reasons for simultaneous purchases from and sales to the same production team, some of them objectively necessary. An example was the state having to make seasonal adjustments or adjustments in varieties of grain. In other cases, policy issues and work problems were involved. The situation was complicated and a substantial number of issues involved. For this reason, in its circular notice the Ministry of Grain called upon all jurisdictions to "feel your way as you go." After investigation and study, it first appointed several counties to run a pilot project to move ahead gradually rather than rush headlong into mass action. The principles borne in mind were: (1) Reduced purchases attendant upon reduced sales, the reduced amount of purchases should generally be less than the reduced amount of sales. (2) Assured fulfillment of quotas from higher authority, or no increase in shipments. (3) Assuring fair supply to the non-agricultural population. (4) Should a county want to readjust its purchase and sales plans, it would

have to make a report to and seek approval from the province, autonomous region, or municipality under direct central government jurisdiction. Should a province, autonomous regions, or municipality under direct central government jurisdiction want to make a readjustment, it would have to request State Council approval.

After all jurisdictions conscientiously investigated thoroughly and summarized pilot project experiences in the spirit of the Ministry of Grain notice, they earnestly solved the problem of both purchases from and sales to a single production team during the same grain year. In 1965, the state provided 16.6 billion jin of grain rations to the rural grain-short population, 4.6 percent less than the 17.4 billion jin supplied in 1962. This benefited the state, collectives, and individuals.

### *III. Removal of Restrictions on Country Fair Trade, Instituting the Purchase and Sale of Grain at Negotiated Prices*

Rural country fair market trade regulates markets under guidance of the national planned economy. It is a necessary adjunct to the national planned economy. After institution of monopoly purchase and sales of grain in 1953, because of the lack of a uniform understanding of the role of rural country fair trade in grain, as well as changes in the grain situation itself, state policies toward rural country fair trade in grain changed several times, restrictions loosened at times only to be tightened. Just before the "Great Leap Forward" in August 1957, as a result of the influence of "leftist" guiding ideology, which held that grain was the focal point in rural villages for the struggle between two classes and two roads [capitalist and socialist], grain markets were regarded as being centralized places for capitalist spontaneous influence. As a result, elementary grain markets in which the peasants carried on limited grain exchange were closed. It was not until January 1962 after the enlarged work conference that the CPC Central Committee convened in Beijing (also known as the 7,000 people conference) summarized the lessons of experience in the "Great Leap Forward" that a spirit of realism began to prevail. The policy of "readjustment, consolidation, filling out, and raising standards" in the national economy scored marked result; grain output revived; the gap between domestic grain receipts and expenditures narrowed; and the rural situation throughout the country began to take a turn for the better. In order to further consolidate the collective economy, arouse the enthusiasm of the peasants for production, and revive and develop agricultural production to enable improvement of the daily life of the people in cities and the countryside, in "Decisions on Grain Work," which the CPC Central Committee issued in September 1962, specific provisions applied to rural country fair market grain dealings and the conduct of grain dealings at negotiated prices. The main content of these decisions were as follows: First was that after collective units and peasants fulfilled their requisition grain procurement quotas, they could exchange their surplus grain in country fair markets; however, private traders were strictly prohibited from engaging in the

country fair grain trade. Second was that supply and marketing cooperatives could make purchases as appropriate in light of the grain marketing situation in country fair markets, or they could go to production teams that had fulfilled their requisition purchase quotas to buy some of their surplus grain at negotiated prices or to make barter purchases using materials. Thus it was that the buying and selling of grain at negotiated prices was formally launched throughout the country, the country fair grain market trade, which had been closed for many years, being freed from restrictions once again.

In June 1963, after dealings in grain and oil-bearing crops were transferred from supply and marketing cooperatives to grain departments for unified planning and administration in accordance with the spirit of the CPC Central Committee and the State Council institution of unified jurisdiction over the administration of grain and oil-bearing crops both within and outside plan, dealings in grain at negotiated prices and rural country fair trade in grain and oil-bearing crops saw further elaboration. The basic methods used at that time were as follows: (1) Rural grain and oil-bearing crop markets, under the unified leadership of the local Country Fair Trade Control Committee, were led and administered by grain departments. Production teams and individual commune members who had fulfilled their requisition procurement quotas were permitted to sell their own surplus grain and oil-bearing crops. Peasants, staff members and workers, and city and town residents who lacked grain and oil could buy grain and oil in markets for their own consumption. However, none of the "four workshops" that production teams operated could buy in markets, nor were public organs, groups, military units, schools, factories and mines, state-owned crop and livestock farms, and entrepreneurial units allowed to sell or buy in markets.<sup>3</sup> (2) Grain departments bought and sold grain and oil-bearing crops at negotiated prices in a flexible manner as the market situation and prices warranted. When large quantities were sent to market, prices were relatively low, business was slow, and supply was greater than demand, they purchased actively. When little was sent to markets, prices were relatively high, and business was brisk, mostly they organized the evening out of surpluses and shortages, doing no buying. When little was sent to market, prices were very high, and demand exceeded supply, they acted insofar as the amount of grain and edible oil in storage purchased at negotiated prices permitted to sell suitable amounts to depress prices. Additionally, after grain departments in all jurisdictions fulfilled their summer and autumn quotas, they could make direct contact with production teams having surplus grain to enter into discussions with them about purchasing it at negotiated prices. From 1963 through 1965, they purchased a total of 11.3 billion and sold 9.4 billion jin of grain at negotiated prices. This played a very great role in solving the country's supply problems, helping the masses even out surpluses and shortages, arouse peasant enthusiasm for production, and promote the revival and development of production.

*IV. Reward Grain Sellers and Encourage Peasants To Grow Cash Crops* During the 3 year period of hardships when the whole country went all out to grow grain, the cash crop area diminished greatly. During 1961 and 1962, output of cotton and oil-bearing crops was less than half the 1957 amount. Cash crops were the principle sources of supply of raw materials for light industry. They were a major force in stabilizing markets and removing currency from circulation, and they were also a main source of the country's export goods. At that time when grain was in very short supply, and rural villages throughout the country were on a "low standard, substituting melons and vegetables" for grain, only award sales of a certain amount of grain to take care of the grain rations of peasants growing major cash crops could maintain a certain cash crop growing area, making the peasants willing to devote some good land, fertilizer, and labor to the growing of cash crops. Therefore, "Instructions on the Institution of Grain Awards in the Purchase of Major Cash Crops," which the CPC Central Committee issued in April 1961, provided that "CPC committees in all jurisdictions must insure that production brigades (or basic accounting units) that grow mostly major cash crops are able to eat a grain ration equal in amount to that of nearby surplus grain brigades." Acting in the spirit of this CPC Committee decision, the country dispensed a substantial amount of grain each year as an award for growing major cash crops. (See Table 6)

Table 6.  
Cash Crop Award Sale Grain Standards For 1961-1962

Crop	Units	Amount of Award Sale Grain (Jin)
Cotton	1 Dan	35
Shelled Peanuts	1 Dan	20
Sesame Seeds	1 Dan	20
Flue Cured Tobacco	1 Dan	20
Hemp	1 Dan	30
Silkworm Cocoons	1 Dan	20
Apples	1 Ton	40
Shelled Walnuts	1 Ton	500

Because of the continuing very great difficulties in supply in 1962, the use of grain for award sales when purchasing cash crops and hogs was reduced in a change to award sales of chemical fertilizer. The specific system used was as follows: (1) Cotton: Hebei, Shanxi, Shandong, Henan and Shaanxi provinces as well as Beijing maintained without change the grain and chemical fertilizer award sales standards of the previous year. Other provinces, autonomous regions, and municipalities under direct central government jurisdiction no longer offered award sales of grain. They changed the previous award sale of grain to an award sale of chemical fertilizer, 1 jin of chemical fertilizer for 1 jin of grain. (2) Award sales of grain were halted for the purchase of

oil-bearing crops, various kinds of hemp, and sugar-bearing crops, award sales of chemical fertilizer taking their place. (3) Different areas made award sales of grain and fertilizer for watermelons. (4) For purchases of live hogs for export and for domestic sales, and for purchases of pond fish, the livestock feed grain allowance standards of the previous year were maintained without change. (5) In order to encourage the production of flue cured tobacco in key areas, increase procurement, and stabilize markets, award sales standards for flue-cured tobacco were increased. In Shandong, Henan and Anhui provinces, the award sale of grain was 100 jin of grain or 30 jin of chemical fertilizer per dan of flue cured tobacco. In other provinces in north China, it was 20 jin of grain or 30 jin of chemical fertilizer per dan of flue cured tobacco. In south China provinces, the award sale was 50 jin of chemical fertilizer per dan of flue cured tobacco, and no award sale of grain. (6) In order to encourage production of tussah silkworm cocoons, tea, and Chinese medicinal herbs to meet export and domestic market needs, an award sale was made of 70 jin of grain per dan of tussah silkworm cocoons purchased. For each dan of graded tea purchased, an award sale of 25 jin of grain and 125 jin of chemical fertilizer was made; for the kind of tea sold in border regions and ungraded tea, the award sale was 10 jin of grain and 40 jin of chemical fertilizer per dan of tea. There were 42 different award sales of grain for the purchase of different kinds of Chinese medicinal herbs ranging from a maximum of 150 jin to a minimum of 30 jin of grain per dan.

By 1964, with the ever increasing improvement in industrial and agricultural output, increase in industrial and agricultural products, steady improvement in the market situation, and steady increase in supplies of commodities, the scale of award sales was decreased, and award sale standards decreased. Examples included the Chinese herb, wrinkled giant hyssop [*Agastache rugosa*], for which the award sale of grain decreased from 40 to 20 jin per dan; and Chinese yam [*Rhizoma Dioscoreae*] for which the award sale of grain decreased from 100 jin to 50 jin. By 1965, State Council "Circular Notice on 1965 Award Sales Standards for Procurement of Agricultural Products" provided for a further decrease in the varieties of products for which award sales were to be made in the spirit of continued decrease in the scale of award sales and a gradual decrease in award sales standards. In 1965, fresh eggs, fresh milk, and most flue cured tobacco were also withdrawn from the purview of award sales; the number of varieties of Chinese medicinal herbs for which award sales were offered was reduced to 33; and the varieties of materials offers in award sales for the purchase of agricultural products also declined further. In 1965, the materials used in making award sales were pretty much limited to cotton, grain, and chemical fertilizer; other materials were no longer listed as award sale commodities.

When grain was in short supply, state use of award sales of grain when purchasing cash crops, hogs, and poultry played a role in giving impetus to the all around development of agricultural byproducts production; however,

with the revival and development of agricultural production, rural sales of cash crops, particularly hogs and poultry, increased more and more, so state award sales of grain also increased greatly. By 1965, such sales had increased to 5.3 billion jin, more than three times again as much as the 1961 figure, the state's grain burden becoming heavier and heavier. This became a problem requiring diligent study for solution.

*V. Stabilizing the Peasants' Burdens by "Guaranteeing No Change For 3 Years" in Requisition Procurement Quotas for Grain*

Ever since 1955 the state had practiced a system of fixed output, fixed procurement, and fixed sales in grain requisition procurement quotas, and a policy of making up lean year and lean area harvests from bumper year and bumper area harvests for rural communes and brigades. However, after 1958, the high output estimates and high requisition procurement, which placed too great a burden on the peasants, and the fixing of requisition procurement quotas one year at a time, which resulted in peasants not knowing where they stood, were very disadvantageous to the arousal of peasant enthusiasm for production. By 1965, gross grain output reached 389 billion jin, which was close to the 1957 level, for a gradual turn for the better in the grain situation. In order to stabilize the peasants' burden, in October 1965 the CPC Central Committee decided to institute the system of "guaranteeing no change for 3 years" in the requisition procurement of grain. This system provided that, beginning in 1965, production team requisition grain procurement quotas were to be stabilized. They were to be set once every 3 years, be guaranteed for 3 years, and not changed further during the 3 years. This unchanging 3 year requisition procurement figure stabilized the requisition procurement base figures for grain for which peasants were responsible. The system also provided that when provinces, autonomous regions, and municipalities under direct central government jurisdiction handed down base figures for requisition procurement, they could increase them by a discretionary 5 to 10 percent of the central government distribution base figures in order to be able to augment procurement from lean harvest areas with additional procurement from bumper harvest areas. Even after reducing or waiving procurement in areas having a lean harvest because of natural disasters, it would thus be possible to fulfill overall central government requisition procurement plans. In order to insure increased fulfillment of state grain needs while simultaneously enabling a stabilization of the peasants' grain burden, the central authorities required the following: 1) Adoption of a system of excess output, excess procurement, and excess awards for bumper harvest areas, increasing procurement suitably. In actual implementation, the fat and lean situation in agriculture had to be taken into consideration, excess procurement being done in years of bumper harvests, in seasons of bumper harvests, and in areas of bumper harvests. The amount of excess procurement had to be controlled as well, not purchasing too much, so as to

prevent the need to make reverse sales following procurement. As production increased and peasants' burdens were stabilized, the amount of grain sales in rural areas was to decrease gradually. 2) The burden of requisition procurement quotas had to be distributed fairly and equitably among one region and another, and among one commune or brigade and another, avoiding too light a burden at one time or in one place, and too heavy a burden at another time or another place, positively not purchasing too much grain, thereby changing the senseless situation of both buying from and selling grain to a single production team. Gradually, the goal was attained of production teams having surplus grain, individual households having surplus grain, and grain being stored by civilian households for a suitable increase in the country's grain reserves. 3) All jurisdictions were to set grain ration standards for individual production teams following the principle of looking after the needs of the state, collectives, and individuals on the basis of the local level of production. When these standards could not be met, there was to be no state procurement. When output exceeded these standards, a suitable amount was to be procured. Low output production teams should have low grain ration standards, the grain ration standards for production teams having high output being somewhat higher. The maximum and minimum limits for grain ration standards were to be set by individual provinces, autonomous regions, and municipalities under direct central government jurisdiction.

A fair and equitable grain burden was of major importance in the correct handling of relations between the state and the peasants. Consequently, under the unified leadership of the CPC Central Committee, and in accordance with the Central Committee's system of "guaranteeing no change for 3 years," leading cadres personally went into action to arouse the masses, surveying and studying one production team after another to gain an understanding of the situation. They also organized the masses to conduct democratic discussion to appraise existing requisition procurement quotas, carrying out needed readjustments, and deciding base requisition grain procurement base figures under the system of "guaranteeing no change for 3 years." The general method used in making readjustments was to readjust both ends leaving the middle unchanged, meaning no change in the majority of production teams in which quotas were basically fair, making changes only when inequities in requisition procurement quotas between one production team and another were conspicuous. Readjustments were made to irrational situations of too light or too heavy procurement burdens, and too high or too low grain rations. After the readjustment of quotas, the grain ration level in production teams in which quotas had been increased was no lower than the average grain ration level at that time. As a result of the stabilization of the burden, when their production increased subsequently as a result of hard work, their grain ration level could be increased. Production teams whose quotas were reduced breathed a sigh of relief, and their confidence in being able to do a good job of production rose.

In the majority of production teams where no changes were made, zeal for engaging in production became higher and higher because they knew where they stood.

As a result of mistakes made in the "Great Leap Forward" and the people's commune campaigns, during the first 4 years of the 8 year period from 1958 through 1965, the most serious blunders were made in grain work since founding of the new China. During the second 4 years, when the national economy went through readjustment, consolidation, filling out, and raising standards, a series of actions were taken in grain work. By 1965, agricultural output recovered from the upheaval of the "Great Leap Forward," and people's economic life once was once again on a normal, healthy path.

#### **Chapter V. Insuring Grain Supply in the Midst of Turmoil (1966-1978)**

No sooner did readjustment of the national economy begin to show results than the "Great Cultural Revolution" began in May 1966. The turmoil went on for 10 years, the national economy sinking into chaos again with disastrous consequences. During this period, grain work was likewise seriously damaged, the grain situation changing from mitigation to aggravation of shortages. However, the fine tradition of the entire CPC in devoting attention to grain, the broad masses of peasants continuing to produce, and cadres, staff members and workers in grain businesses remaining at their posts limited, to a certain extent, the disturbance and the damage that the "Great Cultural Revolution" caused to grain work. Throughout the months and years of continued turmoil, normal supplies of grain for various uses in society were substantially assured.

#### **Section I. Severe Effects of the "Cultural Revolution" on Grain Work**

##### *I. Change from Mitigation to Aggravation of the Grain Shortage*

The "Great Cultural Revolution" caused "leftist" deviation to go to extremes, the political turmoil severely impacting on and disturbing grain work.

During the first several years of the "Great Cultural Revolution," because the "eight character" policy and attendant policies and measures for regulating the national economy of the previous period continued to play a role. In addition, large numbers of educated youths were mobilized to go up to the mountains and down to the countryside, and large numbers of cadres and city and town residents established homes in rural villages. As a result, the increase in city and town population slowed and even declined in some cities for greater stability in various kinds of grain expenditures. Thus, it was still possible to balance domestic grain receipts and expenditures with a slight surplus. During the Third 5-Year Plan period from 1966 through 1970, the national average requisition procurement of grain rose 11.5 percent over the "three year readjustment" period. Sales rose 3.2 percent at a speed of

increase lower than requisition procurement. In 4 out of 5 years, the country showed a balance between grain receipts and expenditures with some surplus. The net surplus for the 5 years taken together was 7.6 billion jin. Although the grain situation during this period was somewhat better, the improvement covered some contradictions, principal of which was the unrealistically rigid demand for self-sufficiency in grain. A policy of "taking grain as the key link, and complete development was onesidedly carried out in agricultural production. The emphasis on grain put pressure on the growing of cash crops, the rural economy becoming more and more inflexible." As a result, the balance between grain receipts and expenditures with some surplus was no longer solid. The problem came out in the open in 1972. In only a single year during the period from 1971 through 1976 was there a surplus in the balance of the country's grain receipts and expenditures (1974 showed a surplus of 4.1 billion jin). There was a deficit in the other 5 years. After offsetting the surplus against the deficit, there was a net deficit of more than 20 billion jin of grain. Not only did grain have to be imported for consumption, but supplies in storage had to be tapped as well.

In 1971, grain production prospects for the year were good; nevertheless, the country was unable to achieve balance between receipts and expenditures of grain. In addition to importing some grain, an additional 1.2 billion jin was taken out of storage. The political turmoil accentuated the anarchy in economic life. In addition, the apparent temporary stability in the grain situation during the first several years abetted blind optimism, resulting in a general swelling of capital construction, duplicatory construction, and mindless construction. This occasioned a sudden increase in the numbers of staff members and workers, with wage payments and grain sales going out of control. In early 1972, Zhou Enlai noted that the number of staff members and workers nationwide had broken the 50 million mark, that expenditures for wages had broken the 30 billion yuan mark, and that grain sales had broken the 80 billion jin mark. These three breaks occasioned a series of problems in all parts of the national economy. Unless solved, mistakes would be made. Regrettably, the "alarm" that Zhou Enlai raised about the grain situation did not arouse the attention that it should have aroused in all quarters.

The State Council's "Report on Grain Problems" to the CPC Central Committee of 24 November 1972 explained that "The main reasons for the 'three breaks' were the extended capital construction front, and too great an increase in the number of staff members and workers, the number of staff members and workers increasing to 9.83 million during 1970 and 1971 alone, which was 5.09 million more than plan. The 1972 labor plan called for 1 million, but this number was exceeded during the first half of that year. Unless effective actions were taken to correct this situation, by the end of the year, the number of staff members and workers might break the 55 million mark; the wage bill might reach 33.7 billion yuan; and grain sales might also break the 90 billion jin mark." The actual situation was increased loss of control over grain sales

during the second half of 1972 for an increasingly large gap between grain receipts and expenditures. After offsetting the country's grain receipts against expenditures this year, the deficit reached 14.9 billion jin. Thereafter, the shortage of grain continued for many years as an accompaniment to the turmoil of the "Great Cultural Revolution."

The year after year grain deficit, and the decline in shipments from surplus grain producing areas meant an every increasing shortfall in grain allocations between one province and another. Grain shipments between provinces, autonomous regions, and municipalities under direct central government jurisdiction between 1971 and 1976 declined an average 12.8 percent per year as compared with the Third 5-Year Plan period. The number of grain-short areas increased, places that had historically shipped grain such as Inner Mongolia, Guizhou, and Xinjiang becoming grain-deficit areas. In particular, Sichuan Province, which had formerly shipped substantial quantities of grain, changed from a grain-surplus to a grain-deficit area. Zhejiang Province, known as a south China land of plenty, also took deliveries of grain in 1976. Grain had to be imported in order to maintain balance in supplies for the large cities of Beijing, Tianjin, and Shanghai, and to assure supplies of soybeans to key areas. Some of the glutinous rice and mung beans needed in large cities also came from imports. Key national industrial production units that used grain as their primary raw material, such as the North China Pharmaceutical Plant, continued to have their needs supplied out of special state grain allocations.

In order to get through the hardships of this period, there was no choice but to use grain from national grain reserves and from rural collectives' reserves. In 1973, supplies of grain in revolving storage in many places were meager, making allocations extraordinarily difficult. In order to meet emergency needs, for 7 months following the beginning of the year, national reserves of grain were used. The grain removed amounted to 26.58 percent of the original amount in storage. Only after the autumn harvest was it returned little by little. In order to increase rice exports outside of plan in order to import wheat that year, 1 billion jin of collective reserves of rice in Jiangsu Province were borrowed for central state allocation. Because of the insufficient amount of corn in national storage, during 1973 and the third quarter of 1974 in Liaoning Province alone, 541 million and 283 million jin respectively of corn was taken from collective reserves to regulate market supplies. The foregoing situations show that the national grain receipts and expenditures situation was extremely difficult during the turmoil.

## *II. Tumultuous Situation in Grain Distribution and Circulation*

Serious "leftist" deviation errors and fierce political turmoil caused protracted aggravation of the grain situation, a tumultuous situation occurring in the fields of grain distribution and circulation.



(1) Grain procurement. The sharp conflict between grain production and demand, the strain between supply and demand, and state procurement of less grain than was needed for sales caused all jurisdictions to overemphasize the state's requirements when drawing up requisition grain procurement plans. This resulted in some places repeating the mistake of procuring too much grain, thereby artificially enlarging the rural grain shortage. Following spring planting in the following year, the state had to increase the amount of reverse sales to rural villages, or return to them the grain taken through requisition procurement. This meant a speed of increase in state supply of grain to the agricultural population that was much, much higher than the speed of increase in the supply of grain to the nonagricultural population. During the Fourth 5-Year Plan period from 1971 through 1975, for example, grain sales to the nonagricultural population nationwide averaged a 3.1 percent per year increase, while sales to the nonagricultural population increased by an average 6.8 percent per year. When grain sales were too great, even more grain had to be purchased the following year in a vicious circle. Take the situation in Sichuan Province, for example. When "leftist" deviation errors seriously interfered with the rural economy after 1971, grain production slowed. In order to insure the need for year-by-year increase in grain sales, maximum limits were exceeded in planning rural requisition grain procurement, thereby putting pressure on the peasants' grain rations. During that year, after the Sichuan peasants handed over their requisition procurement grain, and deducted necessary collective withholdings, only slightly more than 300 jin per person of raw grain remained. Consequently, one-third of the grain taken in requisition procurement had to be resold to the rural villages in order for them to maintain reproduction. More than half of the production teams both bought and sold grain; the peasants could not improve their livelihood, so their interest in production declined. In an 8 September 1975 letter to the State Council, Li Jingquan [2621 0064 3123] said: "Sichuan Province will have a bad harvest this year; reduced output is a foregone conclusion, and positively not an exaggeration. In order to safeguard this important grain base for the whole country, and protect the initiative of the masses, a cut in requisition procurement of between 500 million and 1 billion jin in Sichuan Province is recommended. The grain ration in rural Sichuan is less than 400 jin per capita, and in 38 percent of production teams, it is less than 360 jin per capita. Any further reduction in the grain ration would be bad. It is very difficult to forecast the amount of decline in output this year, because the gross output reported for last year was too large...unless attention is given at once, the mistakes of 1959 may very likely be repeated." At that time, the State Council agreed to reduce Sichuan Province's requisition procurement quota. Furthermore, 1 billion jin of grain was shipped into Sichuan in 1976, and another 250 million jin of grain was shipped in 1977. Sichuan Province, that land of plenty, ate grain from elsewhere once again as a result of the too high requisition procurement.

Another example occurred in Guizhou Province where too much grain was purchased year after year from 1971 through 1976, resulting in widespread resale of grain to rural villages there. During these 6 years, 50 percent, and even as much as 70 percent of the grain sold to rural villages in the province each year was sold back following requisition procurement. In 1975, Xifeng County in this province suffered a natural disaster. After it fulfilled an 11 million jin requisition grain procurement quota, the agricultural population had a grain ration of only 256 jin per capita. Between October of that year and September of the following year, 10 million jin of grain, or 91 percent of the requisition procurement quotas was resold to rural villages.

Controlled and manipulated by the Jiang Qing counter-revolutionary clique and its factional forces, and affected by the pernicious influence of the ultraleft trend of thought, some places and departments did not painstakingly study and analyze the problems that appeared in grain work. All poor fulfillment of requisition grain procurement quotas was blamed on failure to take firm hold of the key link of "class struggle," and failure to carry out large scale criticism of "capitalism." Some places even suggested "no reduction in contributions during disaster years," and "seizing every day and hour" for grain procurement. The amount of grain that the peasants provided the state also became a topic for "fighting selfishness and repudiating revisionism." Such an ultraleftist way of doing things abetted the excess procurement of grain, and made more serious the situation of the same production team both buying and selling grain. A diddy that circulated among the peasant masses in Gansu Province was a stern criticism of this way of doing things. It went: "Urgent requisition procurement in the fall and winter, and hurried resale in the spring and summer. An additional price paid for excess procurement this year, and resale to provide relief next year."

Overprocurement of grain not only wasted the manpower, material, and financial resources of the country, collectives, and the peasants, but also was bad for the arousal of peasant enthusiasm for production. It tired the people and drained the treasury.

(2) Retention of grain in rural collectives. During this period, in addition to the grain retained as a ration for communes and production teams and as seed grain, additional amounts were withheld arbitrarily as live-stock feed grain for the use of the collective as a whole, grain used to feed laborers on public projects, and for so-called other collective uses. This both hurt fulfillment of state requisition procurement quotas and the distribution of commune members' grain rations. This produced an irrational situation in the distribution of grain whereby the proportional relations among the state, collectives, and the peasantry were "squeezed at both ends and enlarged in the middle." This was particularly conspicuous in the case of the "other" uses. For example, a 12 June 1975 "Survey Report on Enforcement of Constant Grain Requisition Procurement Quotas for 5

Years in Quxian County," which the Zhejiang Provincial Grain Bureau issued, said that quite a few production teams were withholding an ever increasing amount of grain for "other" uses. Shifo Commune in Quxian County withheld 47 jin of grain per capita for "other" uses in 1947. Fengkuang Production Brigade in this same commune withheld 109 jin of grain per capita for "other" uses. This meant a withholding for "other" uses in four production teams of 17.6 percent of the gross output of grain, amounting to as much as 210 jin per capita. Statistics from the Grain Bureau of the Ministry of Commerce showed a 7.2 percent increase in output of grain by collectives nationwide in 1976 as compared with 1973, and a 4.9 percent increase in state requisition grain procurement. However, grain withholdings by collectives for various purposes increased by a total of 21.6 percent, more than half of which was an increase in withholdings for "other" uses. The amount of grain distributed as rations to commune members declined as a result of this.

Yet another reason for the general increase in the amount of collective grain withholdings was that many prefectures, communes, and brigades falsely reported grain output at that time. As a result, they had to list these false figures among "other" expenditures in their accounts in order to make them balance. This concealed the true grain situation, complicated grain work, and was disadvantageous to the country, collectives, and commune members.

At this time, mindless direction was given in the capital construction of farmland in some places. "Secretary Zhang is coming, so dig it out; Secretary Li is coming, so fill it in." This digging out and filling in wasted large quantities of labor, and added to commune and production brigade grain ration subsidies for compulsory peasant labor. This was another important reason for the expansion of withholdings for "other" uses of grain.

At the same time, a situation also occurred in which production teams in some places did not withhold grain for a collective reserve. A survey conducted in Mohuan District of Quxian County by grain departments in Zhejiang Province during June 1975 when grain production was good and grain rations were at a high level showed the following: During 1973, 45.3 percent of production teams did not withhold grain for reserves, and in 1974, 49 percent of production teams did not withhold grain for reserves. This was generally the case throughout the country during the years of turmoil when the amount of grain in collective reserves declined. Statistical data from the Grain Bureau of the Ministry of Commerce showed a 4.6 percent decline in 1976 as compared with 1973 in the amount of grain in rural collective reserves nationwide.

(3) City and countryside grain sales. During this period, the state wanted to strictly control subjective desires in the sale of grain in rural villages. Actually, sales expanded steadily as a result of a very apathetic work performance. Not only was it necessary to resell to rural

villages large quantities of excess procurement grain, it was also very difficult to control award sales of grain for the procurement of agricultural byproducts. At a time of rural grain shortage, award sales of grain for the procurement of agricultural byproducts played a positive role in augmenting peasants' grain consumption, in encouraging the economic diversification of agricultural byproducts, and in insuring that businesses, supply and marketing cooperatives, and light industries fulfilled their procurement quotas. In 1973, the State Council stipulated award sales of grain in the procurement of 68 different agricultural byproducts. In actual implementation, however, various problems occurred. One was that because of the chain reaction, it became very difficult to purchase various kinds of native agricultural specialty products without an award sale of grain. This led to some places and departments vying with each other to expand the scope of award sales, raising award sales standards. Data from 23 provinces, autonomous regions, and municipalities under direct central government jurisdiction for 1975 showed 136 different agricultural byproducts for which grain sales were specified in various jurisdictions, not including those that foreign trade departments purchased specifically for export. This greatly increased the country's grain expenditures. Second, since grain for award sales was sold at the state plan supply price, which was lower than either the state excess procurement price or negotiated prices for grain, award sale grain came to be an added price subsidy for the procurement of agricultural byproducts. Consequently, in some places a chaotic situation came about in expenditures for award sale grain of resort to deception, and to illegally buying up grain for resale at a profit.

In the supply of grain to cities, some places also arbitrarily expanded the number of categories and the standards for providing supplementary grain. Ministry of Commerce Grain Bureau statistics showed 80 supplemental grain categories at that time requiring the annual expenditure of an additional nearly 1.7 billion jin of grain, which was 3.3 percent of the total amount of grain sold to the population receiving a fixed grain ration, or approximately 12 jin per person per year. Take Shanghai, for example, In 1976, more than 120 million jin of supplemental grain was expanded on all categories for the city as a whole in 1976. This was 4.6 percent of the total amount sold as a grain ration for the whole city during the year, an 11 million jin increase over 1973, and a 32 million jin increase over 1965 before the advent of the "Great Cultural Revolution." Figured in terms of the fixed grain ration for the population of the whole city, this reached 17 jin per capita per year. In connection with the proliferation of supplementary grain categories, the Shanghai Municipal Grain Bureau found 75 categories in a survey of the Zhabei District, 34 of which could be eliminated. The problem of too great a liberalization of supplementary grain existed in varying degrees everywhere in the country, and resort to deception, fraudulent applications and claims, and misuse for personal benefit occurred.

There were also a considerable number of loopholes in the supply of grain to vegetable growing peasants. During the 1970's, an irrational increase occurred in the ranks of vegetable growers everywhere. The number of vegetable growing peasants to whom the state provided grain rations nationwide increased from 10.06 million in 1973 to 12.62 million in 1977. This meant a drop from 13.3 to 11.3 in the number of people in the non-agricultural population that a single vegetable growing peasant supplied with vegetables. In many places, the proportion was much lower than this. In Chongqing in Sichuan Province, for example, each vegetable growing peasant supplied only 6.5 people with vegetables; and in Heishan County in Liaoning Province, each vegetable growing peasant supplied only 4.9 people with vegetables. Another example was Jieguanting and Hengxianhe communes in Lieyang County in Shaanxi Province where there were 18 vegetable growing teams who annually received 1.1 million jin of grain from the state. In reality, these vegetable growing teams did not have a single vegetable growing peasant in them. Instead, some commune and brigade cadres misused their authority to violate policies, inserting rural relatives and friends from elsewhere into these vegetable growing teams, or they converted personnel from commune-operated enterprises into "vegetable growing peasants." They also colluded with factories and mining enterprises to place the rural relatives of staff members and workers in their firms, having them await call up for employment while serving as "bridges" or "transients" growing vegetables. As another example, Hongguang Production Brigade in Wang Zhai Communes located in Xiangfan City, Hubei Province established a vegetable growing production teams of 711 people, all of whom were the families of staff members and workers in other villages. They lived with staff members and workers in factory and public organization dormitories in the city, going to the Hongguang Production Team once each month to get their grain ration coupons under the designation "households from outside the commune." The state allotted the production brigade monopoly sale grain at the rate of 400 jin per vegetable growing peasant per year, part of which the production brigade allocated to these "households from outside the commune," keeping the other part of it for the discretionary use of the brigade.

During the "Great Cultural Revolution" period, despite the CPC Central Committee and the State Council issuance of orders on several occasions for rigorous control of grain sales and intensified grain management, some places and some departments went their own way. Thus, there were a substantial number of loopholes in the social distribution of grain, which made it difficult for the state to control grain sales.

(4) Country fair trade and purchases and sales at negotiated prices. Guided by erroneous "leftist" deviation ideology, all possible means were used to limit, replace, or even eradicate the country fair market trade. Peasants who traded what they had for what they needed at country trade fairs were criticized as "capitalist roaders." In some places,

peasants who engaged in the plaiting of straw, bamboo, and rushes, gathered things growing in the wild, fished and hunted, or raised domestic livestock and fowl as household sideline occupations were termed "the tail of capitalism" and were chopped off. Private plots were termed "restoration land," and peasant households were forced to make "three contributions" (private plots, land alongside their dwellings, and private orchards). This stifled the enthusiasm of the broad masses of peasants to develop commodity production, creating hardships for the rural economy and financial hardships for the peasants' livelihood.

The choking off of the grain markets and the closing of channels of circulation not only hurt the peasants, but the country also lost a supplementary channel for the purchase of commodity grain. As a result, state-owned grain businesses' efforts to purchase commodity grain at negotiated prices went from bad to work, shriveled up, and even came to a halt. During the Third 5-Year Plan, an average 1.07 billion jin of grain was bought at commodity prices throughout the country every year, 71.6 percent less than during the "3 years of readjustment" period. During the Fifth 5-Year Plan, an average of only 800 million jin of grain was purchased at negotiated prices annually, another 25 percent decline from the average for the Third 5-Year Plan. Sales of grain at negotiated prices were also seriously curtailed under the guiding ideology. As a result, fewer and fewer negotiated sales were made, so they could not play a regulatory role in the peasants' livelihood and in invigorating the market. During the Third 5-Year Plan, sales of commodity grain at negotiated prices averaged 2 billion jin each year, 36.5 percent less than the average during the "3 years of readjustment" period. During the Fourth 5-Year Plan, grain sales at negotiated prices amounted to an average of only 720 million jin per year, for another 63.9 percent decrease from the average during the Third 5-Year Plan period.

### *III. Close Attention to Grain To Insure Supplies*

Despite the numerous difficulties attending grain planning during the "Great Cultural Revolution," grain departments at every level maintained their normal activities in the procurement, sale, and allocation of grain throughout. Each year they completed the purchase, sale, and allocation of several hundred billion jin of grain, thereby insuring the allocation of grain supplies to cities, industrial and mining areas, capital construction sites, cash crop growing areas, and areas lacking grain because of natural disasters. During this tumultuous era, no major problems in running out of grain occurred, nor was the matter of prime importance of food for the broad masses of people adversely affected. This made a major contribution in stabilizing markets, calming people's fears, and assisting the building of production.

Grain businesses were able to maintain normal activities during these tumultuous times because of the existence of positive factors and healthy forces that resisted interference and damage.

(1) CPC and people's government leaders at all levels never relaxed control of grain work. Following the founding of new China, the CPC Central Committee and Chairman Mao Zedong were extremely attentive to grain problems giving a series of major instructions on grain work. During the initial period of the "Great Cultural Revolution," Chairman Mao Zedong again noted the need for strict attention to grain. During the 10 years of turmoil, State Council Premier Zhou Enlai, and the deputy premier in charge of financial and economic work, Li Xiannian, devoted very great energy to eliminating interference, personally inquiring about grain work and the specifics of grain allocations and transfers nationwide. This played a major role in the implementation of grain policies by leaders at all levels and cadres in grain departments, insuring the normal operation of the grain business mechanism, and maintenance of basic stability in the grain situation. In the "power seizure" tempest that swept through the whole country, when the domestic political situation was extremely chaotic, Zhou Enlai was extraordinarily worried lest grain problems occur that might adversely affect the entire economic situation. On 3 May 1967, he personally met with all the delegates to the summer grain and edible oil requisition procurement conference from 14 provinces, autonomous regions, and municipalities under direct central government jurisdiction whom he questioned closely about the fulfillment of grain requisition procurement quotas during the previous year, and summer grain crop prospects for the current year. Focusing on the so-called "revolutionary mass criticism" launched against grain departments, in which correct grain plans, policies, rules and regulations were violently criticized as the "capitalist reactionary line," or "revisionist things," he delivered a severe criticism in which he opposed attacks on grain work by the ultraleft ideological trend at that time. Following this conference, Zhou Enlai remained on tenter hooks about grain work. In June of the same year, he had Li Xiannian convene another telephone conference on summer grain and oil-bearing crop requisition procurement and distribution problems. On 28 October of the same year, despite the hectic pace of state affairs, Zhou Enlai again met with delegates attending the All-China Conference on Grain Work. He carefully questioned them on grain production and procurement in 20 provinces, autonomous regions, and municipalities under direct central government jurisdiction. He also personally examined and approved the annual grain procurement and marketing plan.

During the first several years of the "Great Cultural Revolution," at the behest of Zhou Enlai and Li Xiannian, the State Council Finance and Trade Office organized large numbers of grain work teams to go into key areas to direct and support grain departments in carrying out their normal activities in order to insure fulfillment according to plan of quotas for grain requisition procurement and movement into storage.

During the 10 years of the "Great Cultural Revolution," except in 1968, the State Council insisted on the convening each year of a nationwide conference on grain

work to hear reports from all provinces, autonomous regions, and municipalities under direct central government jurisdiction on grain work, to collect data on the status of grain production, to discuss annual grain commodity circulation plans, and to study ideas and measures for solving relevant problems.

Such vigorous attention to grain work on the part of the CPC Central Committee and the State Council leaders was a major guarantee against the outbreak of disorders in the midst of the hectic grain situation. As Li Xiannian said on 21 October 1977 when meeting with delegates to the All-China Conference on Grain Work, and the Food Conference: "The grain problem is a large problem that words cannot describe. When Chairman Mao was alive, he said this repeatedly. He said it when monopoly purchase and sales of grain was instituted in 1953; he said it again in 1954 when we overbought several billion jin of grain; and he said it constantly afterward. He gave a series of important instructions. When Premier Zhou was alive, he personally attended to grain work. During one period, Premier Zhou discussed grain problems directly with each province, inquiring about several tens of million jin of grain. The CPC Central Secretariat frequently discussed grain problems."

In addition whenever grain work came under attack or interference, party and government leaders in places that upheld principles came forward to do a lot of work. During a seminar on grain work in Guangdong Province on 29 November 1972, Guangdong Province CPC Committee Secretary Zhao Ziyang addressed the matter of grain cadres who had come under attack and persecution because of adherence to principles. He said sternly, "In the past some grain department cadres who suggested correct ideas suffered criticism, removal from their positions, and assignment to labor in the countryside. We must take the initiative to solve this problem, inviting back those who have been sent to the countryside, and restoring those who were removed from their positions." Furthermore, on the major gap between grain receipts and expenditures at that time, he hit the nail on the head when he said: "Why is it that 10 years of bumper harvests cannot make up for one year of poor harvest? This shows that blind optimism about agricultural problems is entirely without foundation. The discovery of this year's problem shows that the development of agriculture and industry, and the building of agriculture and socialism are not commensurate with each other."

At a conference on hog raising and grain work in Guangdong Province on 31 October 1974, Zhao Ziyang spoke incisively about "left" deviation errors that had shown up in rural requisition grain procurement. He said that in some rural villages in Guangdong Province, too much grain had been purchased for several years running. Actually, the increase in output was actually not that much, or even decreased output was said to be an increase in output. Very great requisition procurement of grain concealed contradictions.

In a situation of serious turmoil, the CPC Central Committee, the State Council, and local Party and government leaders at all levels eliminated interference, never relinquished strict control over grain work, and maintained the normal activities of grain businesses.

(2) The broad masses of peasants did not abandon production to "make revolution." The peasants were workers in collectively owned economic units. They depended on themselves for food, and they depended on themselves for money. The peasants had to engage in agricultural production, harvesting crops in order to receive remuneration from labor for investment in reproduction and to pay all their daily living expenses. This was particularly true of the older generation of peasants, who had experienced the bitter life of the old society. When they experienced the bitterness of the serious grain hardships of 1959 through 1961, they knew well that grain did not come easily and was not to be given up lightly. During the 10 years of turmoil, the "class struggle" penetrated into the field of agricultural production in some places. For example, the peasants came under criticism for "burying their heads in farming, never raising their heads to look at the political line," and some people even said that "eating is important, but the political line is more important," or that "so long as the emphasis is on politics, even if one did not grow grain for 3 years, he would be considered a red banner pacesetter." Some places also suggested, "better to be social grass than a capitalist seedling." So long as firm grip was taken on the "key" link of the class struggle, "if one could not harvest grain, he could harvest rice straw, and if he could not harvest rice straw, he could harvest ideology," and so on. However, the broad masses of peasants paid no attention to such "leftist" attacks and disturbances. Instead, they went on with production as usual, creating the material basis for good grain distribution. During these 10 years, the whole country's gross output of grain maintained fairly consistent increase. During the Third 5-Year Plan, the country's gross output of grain increased from 389 billion jin (raw grain, and the same applies hereinafter) in 1965 to 479.9 billion jin in 1970 for an annual average 4.3 percent increase. During the Fourth 5-Year Plan, the country's grain output increased further, reaching a gross output of 569 billion jin in 1975 for an annual 3.5 percent increase. In addition, the application of large amounts of chemical fertilizer during this period, and the increase in the capital construction of farmland and in degree of mechanization of agriculture were also important reasons for the steady increase in the whole country's gross output of grain. One can imagine that without the turmoil of the "Great Cultural Revolution" the country's grain output would certainly have increased even more, and the sustained shortage of grain of the 1970's would never have occurred.

(3) Staff members and workers involved in supplying grain remained at their posts. The broad masses of staff members and workers involved in supplying grain had

profound personal experience in the paramount importance of having food to eat that they earned during the years of severe difficulties in grain supply. During the 10 years of turmoil, they willingly performed the duties of their positions well, maintaining the normal operation of all the individual parts of the grain procurement, allocation and shipment, storage, processing, and supply process. When the noxious wind of "halt work to make revolution" surged through society in the carrying out of the so-called "great exchange of revolutionary experiences," when "armed struggle" occurred in some places, and when major natural disasters struck in some places, the grassroots units in the grain business did their work as usual, stuck to all measures that benefited the people, served agricultural production, unstintingly fulfilling their duties and responsibilities to the people.

The grassroots grain units' work competition campaigns, and the provincial, municipal, and county campaigns of examination, comparison, and appraisal remained virtually uninterrupted during the period of the "Great Cultural Revolution." The traditional education in serving the people wholeheartedly struck rather deep roots in the thinking of the broad masses of staff members and workers engaged in supplying grain, becoming an important motive force in guiding them to work with enthusiasm.

Thanks to the nurture and education of CPC Party organizations at all levels, nearly a million staff members and workers in grain businesses throughout the country remained at their posts through the months and years, working hard. This was a major reason for the maintenance of the normal operation of grain businesses in the midst of turmoil.

(4) Positive role of the policy of monopoly grain purchase and sales. After the state instituted monopoly grain purchases and sales in 1953, grain units accumulated rich work experiences. A fairly complete body of rules and work regulations existed for all jobs. Grassroots vocational units went about their business as usual from a fairly solid work foundation. At the same time, people in cities and the countryside supported the monopoly grain purchase and sales policy. They were long accustomed to abiding by a control system for the purchase and sale of grain. Continued enforcement of the monopoly purchase and sales policy in the midst of the turmoil was an important underpinning for the planning of grain allocations in a unified way, and making complete arrangements.

## Section II. Main Actions Taken To Solve Grain Problems During the 10 Years of Turmoil

During the 10 years of turmoil, the conflict between production and demand for grain became ever sharper occasioning difficulties in distribution. Given the economic system and the political situation at that time, in order to ease difficulties in grain distribution, ways would have to be found to expand grain production, to intensify control over purchases, sales, allocations and

transfers, and to increase grain imports by a suitable amount. The main actions taken at this time included the following:

### I. Raising Grain Prices To Safeguard the Peasants' Economic Interests

Back in 1965, before the beginning of the "Great Cultural Revolution," the state had a 5-year plan for price readjustments. On 8 June 1966, the State Council ratified and forwarded the National Price Commission's and the Ministry of Grain's "Report on Increasing Monopoly Grain Purchase and Sales Prices," in which it was decided to raise the monopoly purchase price of grain when the new grain began to go to market that year, and to readjust monopoly grain sales prices at the same time. On 4 July 1966, the State Council ratified and forwarded another National Price Commission and Ministry of Grain "Report on Subsidies to Staff Members and Workers Following an Increase in Grain Sales Prices," in which it was decided to provide price subsidies to staff members and workers in view of the increase in grain prices in order to keep their livelihoods stable.

With this comprehensive readjustment of grain prices, the monopoly purchase price of six major grains, namely rice, wheat, corn, sorghum, millet, and soybeans increased from an average 9.24 yuan per 100 jin in 1965 to 10.82 yuan in 1966 in a 17.1 percent increase. This increase in monopoly purchase prices also further narrowed the price gap between one area and another. The principle used in arriving at the price increase was as follows: Prices were raised somewhat more in places in which grain prices had been overly low to begin with, and somewhat less in places where grain prices had been overly high. For example, in Hebei Province, where grain prices were high to begin with, prices were increased 12.7 percent, and in Beijing they were increased approximately 12 percent, which was lower than the average price rise for the country as a whole. In Jilin Province, where grain prices were low to begin with, they were increased 28 percent, which was higher than the average for the country as a whole. The price differential between one province and another narrowed. At the same time, the price differential between cities and the countryside was abolished. In counties having a city and countryside differential price, the whole county had the same price following the price readjustment. In Jiangsu, Fujian, Jiangxi, Guangdong, Heilongjiang, Jilin, Sichuan, and Gansu provinces, and in the Ningxia-Hui Autonomous Region, a single price prevailed throughout most of the province or autonomous region. For some grain varieties such as long grained rice, a single price prevailed in virtually all the provinces of south China, and the price differential for other varieties was also very small. The difference between the maximum and minimum price of wheat throughout the country was only 0.80 yuan per 100 jin. The price of corn and sorghum was slightly lower in the three northeastern provinces than south of the Great Wall, and the price differential among other provinces and autonomous regions was narrowed to only approximately 1 yuan per 100 jin.

When monopoly grain purchase prices were raised, monopoly sale prices were raised at the same time. The principle used in setting sale prices was as follows: Sale prices for raw grain (soybeans excepted) were increased commensurate with purchase prices in both cities and the countryside. The sale price of wheat flour, husked rice, and wheat, as well as soybeans was raised somewhat in large and medium size cities to reflect purchase prices plus processing costs. In county markets, sale prices reflected purchase price plus processing costs. After the increase in city grain sale prices, price subsidies were given to staff members and workers along with their wages. Thus, grain sale price increases did not adversely affect the daily living expenses of staff members and workers.

The readjustment of prices in order to stabilize market prices and insure stability in the people's livelihood required extreme care during the period of sustained turmoil. First, market prices were frozen, the readjustment of extremely inequitable commodity prices being carried out gradually only after 1971. Therefore, following the 1966 total readjustment of grain prices, no further readjustments were made for 12 years in the prices of the principle grains, namely rice, wheat, corn, sorghum, and millet until the 3d Plenary Session of the 11th Party Central Committee in 1978. In 1971 and 1978, the purchase price of soybeans was raised 9 percent and 23.4 percent respectively, and in 1972, in order to increase production of some miscellaneous grains for export and for domestic consumption, purchase prices of buckwheat, red beans, and mung beans were increased 17.4, 26.02, and 23.6 percent respectively.

### II. Institution of the "Four Coordinations" Management System for Strict Grain Control.

In 1972, grain output fell, and requisition procurement declined throughout the country, but sales increased substantially for lack of strict control. A large gap occurred between the country's grain receipts and expenditures. The CPC Central Committee and the State Council called for a tightening of financial and economic discipline, and strict control of grain in view of the appearance of unhealthy tendencies including dispersionism, departmentalism, and every trade going its own way. On 10 December 1972, the CPC Central Committee forwarded the State Council's "Report on Grain Problems," which called for a highly centralized grain control system of coordinated requisition procurement, coordinated sales, coordinated allocation, and coordinated storage (or four coordinations, for short), meaning that the central authorities would coordinate the requisition procurement, sale, interprovince allocation, and storage of grain, all jurisdictions strictly carrying out the central authorities' uniformly prescribed policies and plans, not doing as they pleased, and not setting up "small granaries." At a time of extreme grain shortage when domestic grain receipts and expenditures could not be balanced, when it was necessary to rob Peter to pay Paul, and when allocation and transfer was extraordinarily difficult, the institution of such a control policy played a positive role in fulfillment of state requisition

grain procurement quotas, coordinated allocations and transfers, and in evening out grain supplies between bumper harvest and crop failure areas, and surpluses and shortages between one area and another and between one season and another. During the first year of the "four coordinateds," i.e., 1973, the grain situation took a turn for the better. Overfulfillment of grain requisition procurement plans for the country as a whole increased 14.7 billion jin over the previous year, and sales increased by 1 billion jin over the previous year (a 500 million jin decrease in city and town sales, and a 1.5 billion jin increase in rural areas). After offsetting expenditures against receipts, the domestic grain gap narrowed by 900 million jin in the preliminary reversal of the large scale dipping into grain in storage of the previous year. In addition, advantage was taken of the favorable opportunity provided by the international market price of rice being higher than the price of wheat to export rice in exchange for more wheat and other grains in order to augment the amount of grain in storage. As of the end of 1973, 5.9 billion jin more of grain was in storage than during the previous year. The state was also storing 10.3 billion jin of grain for production teams, 2.2 billion jin more than during the previous year.

Nevertheless, the highly centralized grain control system heaped all the contradictions among grain procurement, sales, allocation, and storage on the central authorities for solution. Local authorities had little flexibility or authority to act on their own initiative. This made it difficult to stir the enthusiasm of the local authorities. When grain commodity circulation plans were drawn up each year, a lot of energy was expended in repeated discussions between central and local authorities. In some places, the situation was one of "eyes looking upward," hands outstretched, sitting and waiting for the central authorities to solve problems.

### *III. Continued Implementation of the Policy of Rural Grain Requisition Procurement Base Figures Guaranteed To Remain Unchanged for Several Years, and Increased Awards for Excess Procurement*

The rural grain requisition procurement policy "guaranteeing no change for 3 years," which began in 1965, was due to expire in 1967. During that period of serious turmoil when the "power seizure" tempest raged, conditions did not exist for study and summarization of how well "guaranteeing no change for 3 years" had been implemented for proposing new measures for the readjustment of grain requisition procurement policies. Therefore the old methods remained in force from 1968 through 1970. Thanks to the diligent performance of Party and government organs at all levels, and of the broad masses of staff members and workers engaged in grain supply work, the policy of "guaranteeing no change for 3 years" continued for 6 years with very good results. During this period, the country achieved balance with some surplus between its grain receipts and expenditures.

During August and September 1970, the State Council convened the All-China Work Conference on Agriculture

and Commerce, and in December of the same year, it convened a nationwide planning conference. These two conferences studied experiences in "guaranteeing no change for 3 years" in grain requisition procurement for further affirmation of the feasibility of this policy. On the basis of the study of the situation that the conferences provided, the CPC Central Committee solicited the views of all provinces, autonomous regions, and municipalities under direct central government jurisdiction. On 21 August 1971, it issued "Circular Notice on Continued Implementation of Requisition Grain Procurement Quotas Guaranteeing No Change for 5 Years," (hereinafter abbreviated to "The Circular Notice"), which decided that from 1971 forward, a change would be made guaranteeing no change for 5 years in requisition grain procurement base figures. "The Circular Notice" decided on the basis of the needs of socialist construction and development of agricultural production that the requisition grain procurement base figure for the period 1971 through 1975 was to be adjusted from 72.6 billion jin to 76.55 billion jin. (In 1972, it was further readjusted to 75.5 billion jin.) When distribution quotas were passed to lower jurisdictions, all provinces, autonomous regions, and municipalities under direct central government jurisdiction could increase the Central Committee's base requisition procurement figures by a discretionary approximately 5 percent, the additional grain being used to make up for the reduction or waiving of quotas for disaster-stricken areas, still being able to fulfill the central government plans. No jurisdiction below the provincial level was allowed to increase the figures level by level. "The Circular Notice" noted that when some communes and brigades had a substantial increase in output as a result of state investment in the building of water conservancy projects, or should it be found that the requisition procurement quotas for a small number of communes and brigades were too light or too heavy, they could be revised as necessary through discussion. Readjustments of the peasants' grain burden with the implementation of requisition procurement quotas guaranteed not to change for 5 years required that work be done with meticulous care for genuine attainment of concurrent concern for the interests of the state, collectives, and individuals. Increased grain output was to serve as a basis for appropriate increases in the amount of state requisition procurement for gradual increase in the reserves of collectives, and to improve the livelihood of commune members. Burdens were to be equitable, positively no overbuying of grain permitted. Except for evening out different varieties of grain, instances of resales of grain following procurement in the same accounting unit were to be avoided. Grain requisition procurement quotas and monopoly sale standards were to be equitably set for major cash crop growing areas, firmly insuring that the grain ration standards for commune members in such areas were no less than in neighboring grain producing areas. "The Circular Notice" pointed out that in order to insure the building and increase of national reserves, an appropriate amount of excess grain procurement from communes and brigades in bumper harvest areas might be done following discussion and agreement in order to make up for crop failures in



some areas from bumper harvests in others. Added price inducements were to continue in effect for excess grain procurement, the amount of the added price being no higher than 30 percent of the monopoly purchase list price. In the process of carrying out the policy of "guaranteeing no change for 5 years," in view of the shortage of supply of rural means of production, the state additionally ruled that when excess grain was purchased from the peasants, one half of the award was to be in cash (i.e., one half of the 30 percent additional price paid), and one half was to be the award sale of materials (principally chemical fertilizer). State excess grain procurement amounted to about 20 billion jin each year, the central government arranging for the shipment of approximately 10 billion jin. By way of encouraging greater shipments, the State Council offered all provinces, autonomous regions, and municipalities under direct central government jurisdiction award sales of chemical fertilizer for excess grain procurement and grain shipments. Specifically, all provinces, autonomous regions, and municipalities under direct central government jurisdiction received an award sale of 3 jin of chemical fertilizer for each 100 jin of excess procurement of trade grain, and an award sale of 3 jin of grain for each net shipment of 100 jin of trade grain. The specific standards for award sales of chemical fertilizer to rural production teams were to be decided on the basis of the actual situation by provinces, autonomous regions, and municipalities under direct central government jurisdiction. During 1975, when there was a domestic shortage of chemical fertilizer, another change was made in the total amount of chemical fertilizer offered. Half was chemical fertilizer, Chinese-produced motor vehicles being substituted for the other half. Regulations provided that 100 motor vehicles were the equivalent of 10,000 tons of chemical fertilizer. During that year, award sales totaled 600,000 tons of chemical fertilizer, and 5,000 motor vehicles (the motor vehicles being distributed to provinces, the provinces converting their value to chemical fertilizer for distribution to the peasants). When the chemical fertilizer distribution situation improved after 1975, award sales continued to be entirely chemical fertilizer. This awards system was warmly welcomed by local governments and the broad masses of peasants.

In the process of implementing the policy of guaranteeing no change in grain requisition procurement base figures for several years, some jurisdictions stabilized the excess procurement amounts for the whole year of the province, prefectures, and counties (or municipalities) in order to insure excess procurement quotas outside of base figures. Figures were not stabilized below the county (or municipality) level, the counties carrying out excess procurement in communes, production brigades, and production teams having bumper harvests and a substantial amount of excess grain as the grain production in the current year warranted. In some jurisdictions, excess procurement grain quotas were basically stabilized level by level from the province to production teams for the entire year, the quotas being discussed in the spring, set in the summer, and readjusted in the fall. Unless special circumstances required otherwise, excess

grain procurement quotas were fulfilled according to the original plan; when there were substantial changes in the year's harvest, appropriate readjustments were made. Some jurisdictions made excess grain procurement a part of overall requisition procurement quotas, assigning them level-by-level to production teams. Normal year output served as the base figure, the state not buying additional grain when output increased by less than 10 percent. When output decreased by less than 10 percent, the state did not reduce procurement. Some jurisdictions instituted a system of proportional excess procurement, purchasing 70 percent, the peasants retaining 30 percent of the surplus grain output after deducting from the actual output for the year the requisition procurement quota base figure, and the amount of grain retained for rations, livestock feed, and seeds. Some jurisdiction lumped together excess grain procurement and requisition procurement base figures assigning them to counties, communes, and production brigades in the institution of excess procurement grain quotas that were also guaranteed to remain unchanged for several years. If the state needed to increase procurement, no change was made in the guaranteed no change for several years in excess grain procurement. Instead, "further excess procurement" figures would be drawn up for the year for areas that had increased output. The increased price inducement for "further excess procurement" was somewhat more favorable than for excess procurement.

When excess grain procurement prices were readjusted because they did not keep up with the rise in agricultural production costs, the setting of equitable grain procurement base figures, which remained unchanged for several years, and institution of an added price inducement policy for excess procurement that increased peasants' economic benefits were of positive significance in encouraging peasants to develop commodity grain production.

#### *IV. Restructuring of Monopoly Grain Sales For Strict Control of Urban Population Grain Consumption*

Effective control over the volume of city and town grain sales hinged, to a considerable extent, on whether the speed of increase of the nonagricultural population could be controlled. For each increase in the nonagricultural population, the state had to provide 500 jin of trade grain to insure that person's grain ration needs and the need for grain used in nonstaple foods. Consequently, the State Council "Report on Grain Problems," which the CPC Central Committee forwarded in 1972, resolutely called for rigorous control of the non-agricultural population to control the amount of grain sales. This document provided that the enrollment of workers should stop at once in areas and departments in which the number of newly added staff members and workers exceeded state plan. Those enrolled on the jurisdiction's own initiative were to be retrenched forthwith. Those who had moved into cities and towns unauthorizedly were to be mobilized for return. Temporary workers were to be made a part of state labor plans. Movement to cities and towns of the rural population was to be

rigorously controlled. Household registration controls were to be effectively intensified, and false reporting, or making fraudulent applications or claims for grain must be halted. Simultaneous with rigorous control of abnormal increase in the nonagricultural population was the advocacy of planned parenthood. State Council "Circular Notice on Further Good Work in Grain Purchases and Sales" of 21 January 1974 reiterated that cities and towns were to continue to do a good job in cutting back the number of staff members and workers, and in reducing the nonagricultural population, removing all who should be removed. During this period, all provinces, autonomous regions, and municipalities under direct central government jurisdiction drew up corresponding measures for controlling increase in city and town population, thereby reducing the speed of increase of the city and town population. During the 4 years from 1973 through 1976, the city and town population receiving grain rations increased by approximately 2 million each year nationwide, more than a half decline from the 4 to 5 million each year of the 1971-1972 period. During this time of conspicuous conflict between supply and demand for grain, control of the city and town population was very necessary. Nevertheless, some places committed errors in implementation. During the "Great Cultural Revolution" period in particular, the movement to rural villages of many staff members and workers left a residue of numerous problems among the residents that very greatly increased the workload in subsequent implementation of policies.

Simultaneous with control of city population increase, both the CPC Central Committee and the State Council issued documents several times, and the Ministry of Commerce convened several conferences that emphasized the restructuring of monopoly grain sales and curtailment of needless supply of grain. The following were the main tasks performed:

(1) Restructuring of the amount of city and town rations, promoting the experiences of Luda in controlling grain. This work included verification of the city and town population for whom rations were supplied, and the setting of ration standards for various kinds of labor, correcting the increase in ration standards that some places initiated, as well as the false reporting of population, and fraudulent applications and claims for grain. This was done to insure one grain ration for each person, plus a certain ration standard on the basis of the kind of labor performed. Each time such a restructuring and verification was done, definite results were achieved. Nevertheless, after a time, old problems reappeared, necessitating restructuring and reverification yet again. Formerly, the grain departments in some cities invested very much manpower and spent considerable time each year in this work. It became an onerous burden. In 1970, Luda City in Liaoning Province reformed control of the grain rations of staff members and workers in industrial and mining enterprises, instituting a "system of relying on the CPC committee in industrial and mining enterprises, and relying on the masses of staff members and

workers to control grain." This system worked like this: The grain rations of staff members and workers were divided into two portions. One portion was a basic ration (for example, 25 or 30 jin of refined grain per person per month). The other portion was a supplementary grain differential for the kind of labor performed (for example, the state-set grain ration standard for exceptionally heavy physical laborers was 55 jin, less the 25 or 30 jin basic grain ration leaving a supplementary grain differential of 30 or 25 jin of grain for the kind of labor performed). Each household was assigned the basic grain ration, which was filled in on the grain purchase certificate of each staff member and worker family for verification when purchasing grain. The supplementary grain differential for the kind of labor performed was under control of the industrial or mining enterprise, workshops or factory teams and groups in the enterprise issuing supplementary grain differential coupons to each staff member and worker each month on the basis of the actual kind of work performed. When changes occurred in the kind of work performed, the enterprise promptly readjusted the amount of the supplementary grain differential for the kind of work performed. The quota of supplementary differential grain for kinds of work performed that each enterprise required was arrived at and verified by the grain department and the enterprise, the enterprise maintaining close watch. The supplementary differential grain quota for the kind of work performed was generally set once each year by the enterprise, the amount being slightly more than actual requirements. In practice, this gave grass roots enterprises latitude in controlling grain, better enabling them to provide grain fairly on the basis of realities.

In 1971, the Ministry of Commerce outlined the foregoing experiences in grain management to grain departments in all jurisdictions. It attracted the universal attention of grain departments everywhere, with many areas beginning to try it out. In July 1974, the Ministry of Commerce convened a national conference to "promote the experiences of Luda City in Controlling Grain, which fully affirmed this experience and formally issued a document for its promotion everywhere." "Circular report on Firm Attention to Current Grain Work," which the State Council issued in 1977, and "Ratification and Forwarding of Ministry of Commerce Views on Control of Grain Sales," which it issued in 1978, proposed continued promotion of Luda City's experiences in grain control. Ministry of Commerce statistics year-end statistics for 1977 showed 63 percent of industrial and mining enterprises having 100 people or more in all provinces, autonomous regions, and municipalities under direct central government jurisdiction as having promoted Luda City's experiences in grain control.

Grain departments were guided by the need for strictness and thoroughness in control at a time of grain shortage when they promoted the experiences of Luda City in grain control everywhere. Over time, this action played a genuine role in stabilizing the level of city and town grain rations. However, there were a lot of complaints from

society in the course of its promotion. The main shortcomings were as follows: Procedures were cumbersome, requiring production units' manpower, increasing the material work of production units to the inconvenience of the masses of staff members and workers. With improvement in the grain situation, state-owned grain businesses' operating methods changed. Grain units also no longer emphasized this experience, and some places no longer promoted it at all, but rather reverted to their previous method of supplying grain on a household basis.

(2) Reductions not consistent with set grain allowances; curtailment of expenditures for grain allowances. In order to control effectively outlays for grain allowances, the State Council ruled that various city and town grain allowances were to be figured per capita of the nonagricultural population, not to exceed 0.5 jin per person per month in principle, no further increase should 0.5 jin not suffice. Specific allowance purposes, standards, and control methods were to be set by individual provinces, autonomous regions, and municipalities under direct central government jurisdiction. The state was not to supply or provide grain allowances to personnel from rural commune-operated enterprises and part time industrial and agricultural personnel in county-operated enterprises, as well as various kinds of personnel employed in rural operating bodies funded by units concerned at all levels out of state operating funds. The Ministry of Commerce also called upon all jurisdictions repeatedly to rectify the large number of city and town categories covered by grain subsidies, the overly high subsidy standards, and chaotic management.

(3) Strict control of rural grain sales, restructuring the supply of grain to vegetable growing peasants. The State Council issued several instructions calling for strict attention to rural grain sales from the beginning of the year. Monopoly sales norms were to be set production team by production team and household by household in grain-short communes and brigades instead of just letting matters slide. During the seasons when rural villages have grain, the state should supply grain rations only to production teams lacking grain in areas growing mostly cash crops, to production teams specializing in the growing of vegetables, and to fishermen, salt workers and herdsmen. The state should also provide award sale grain for the purchase of agricultural byproducts and grain subsidies to civilian laborers. No sales should be made to others. The State Council also took note of loopholes in the supply of grain rations to vegetable growing peasants, prescribing that the population in newly established vegetable growing production teams must operate strictly in accordance with Public Security Bureau regulations pertaining to the movement of households. Grain supplies to vegetable growing production teams were to be determined on the basis of fulfillment of vegetable sales quotas. Acting under the unified leadership of the local party and government, and in response to State Council requirements, grain departments in all jurisdictions regularly restructured rural monopoly sales, and

constantly coordinated with departments concerned to improve grain supply to vegetable growing production teams. They extended the system for coupling vegetables and grain, i.e., distributing grain rations to vegetable growing peasants on the basis of fulfillment of vegetable delivery plans, thus insuring the basic grain rations of the nonlaboring members of vegetable growing households. The implementation of these provisions achieved definite results in reducing the senseless amount of sales to rural villages.

(4) Advocacy of thrift and substitutions for grain used in industry. Thrift and substitutions for grain used in industry began during the "3 years of hardship" during the 1950's, when the conflict between supply and demand for grain was pronounced. All jurisdictions made wide use of starch from wild plants as a substitute for grain in the making of alcohol, alcoholic beverages, and for the sizing of yarn and cotton cloth in order to save grain. During the 10 years of turmoil, when grain was scarce, all jurisdictions took firm grip once again on grain conservation and substitutions in the spirit of repeated instructions from the CPC Central Committee and the State Council to curb grain sales, some places achieving remarkable results. For example, Shanghai industry saved an average of 22 million jin of grain annually from 1968 through 1972, the saving reaching more than 70 million jin in 1973. During the 6-year period from 1967 through 1972, Zhejiang Province used wild plant products including acorns, jingangtou [6855 0474 7333], and Cherokee rose hips [*Fructus Rosa laevigata*] to make white spirits for a saving of 500 million jin of grain. Approximately 80 to 90 percent of the white spirits sold in Zhejiang at that time were made from things other than grain. However, a large amount of organization, mobilization, examination and study had to be done in order to save and substitute for grain; a lot of work had to be done in gathering, transporting and processing the substitutes; costs were high, and factory production procedures were complex. Therefore, as soon as the grain situation improved, these efforts were abandoned in a hurry.

#### *V. Making Use of Grain Export To Meet the Needs of Import and To Acquire More Sources of Import Grain*

During the "Great Cultural Revolution" period, consumption of imported grain was criticized as "revisionism." Consequently, this was regarded as a forbidden zone. When a large gap occurred between receipts and expenditures of grain, instead of turning to the importation of grain, the peasants' grain burden was increased, and great cutbacks were made in the use of grain throughout society. Inevitably this had an adverse effect on the enthusiasm of peasants for the production of grain, gave rise to social unrest, and intensified the tumult in economic life. It simply did not work. However, the country was having financial difficulties at that time. Excessive use of foreign exchange to import grain was also bad for the overall national economy. At that time the State Council adopted a correct policy based on the principle of maintaining a balance between foreign

exchange receipts and expenditures in the import and export of grain, both importing and exporting to increase the amount of grain imports. This policy consisted of the export of high foreign exchanging earning kinds of grain and importing kinds of grains being sold at low prices on the international market, thereby enabling more grain to be imported than exported while maintaining a basic balance in foreign exchange receipts and expenditures. During the early 1970's, the international market price of rice and pulses in great demand were fairly high. The price of wheat was relatively low, and the price of corn even lower. Therefore, the domestic sale of rice was cut back in a readjustment of the structure of the country's grain reserves, and everything possible was done to assemble premium quality rice and certain miscellaneous pulses in great demand for export, the foreign exchange earned being used to pay for wheat and corn imports. Use of this method of careful calculation and strict budgeting acquired more import grain to get through the difficulties. This policy resulted in the importation of 51.442 billion jin of grain (6.74 billion jin of which was corn) between 1971 and 1976. Calculation of the average price of grain imports during these several years showed payment of \$3.222 billion in foreign exchange.<sup>4</sup> Grain exports amounted to 32.709 billion jin. Calculation of the average price of export grain for these several years showed the equivalent of \$3.949 billion in foreign exchange. After offsetting imports against exports, China increased its supply of grain by 18.733 billion jin, and also increased its foreign exchange holdings by \$727 million. Pressures inside the country to export rice to obtain foreign exchange increased the already existing conflict between supply and demand for different varieties of grain. Nevertheless, this use of exports to support imports really produced excellent results at a time when the country was experiencing financial and material difficulties.

In addition, grain departments organized and mobilized production teams to increase year by year the amount of grain that they turned over to state granaries for storage, the amount rising from 7.4 billion jin (raw grain) in 1971 to 17.36 billion jin (raw grain) in 1976. This amounted to the building of a new defense line of grain reserves that helped the country even out turnover. At a time when the level of agricultural production was not high and consumption standards were low, the ability of state granaries to store so much of collective's reserve grain reflected the fine tradition of the broad masses of peasants in the planned use of grain, economy in consumption, and storing grain against natural disasters. This was an extraordinarily praiseworthy matter that deserves to be commended.

#### *VI. Establishment of a Rural Grain Keeper System for Greater Grain Control*

Rural villages were the foundation for grain work. Grain departments had to vigorously support agricultural production, do a good job of grain distribution, and assist in providing for the people's livelihood. The rural grain keepers that grain departments provided were workers

doing this work in the front line. In 1957, many places began to provide a number of grain keepers in rural villages. Acting under leadership of grassroots-level party and government organs, they went into the front line of agricultural production to survey and study, to propagandize grain policies, and to gain an understanding of rural production and living conditions, playing a rather fine role in carrying out grain purchase and sales policies, and in providing for the livelihood of the masses. In May 1966, the Ministry of Grain summarized work experiences in this regard, proposing the establishment of the grain keeper system in rural villages everywhere. This entailed providing a certain number of grain keepers to each commune (or township) as part of a system, without increasing the total number of personnel on the grain system's table of organization, using cutbacks at the top to fill in at the grassroots level. This idea gained the approval of State Council Deputy Premier Li Xiannian at once. Thereafter, the system of establishing rural grain keepers was extended everywhere throughout the country.

During the 10 years of turmoil, rural grain keepers in an overwhelming majority of places eliminated interference, surmounted all sorts of difficulties, discharged their duties well, and created numerous work experiences. Thus, once the tumult came to an end, grain departments were able to marshal very quickly their experiences in this regard, promulgating "Trial Regulations for Rural Grain Keeper Work." The "Trial Regulations" stipulated the duties of rural grain keepers as follows: To educate and explain regularly relevant state grain plans and policies to rural grassroots cadres and the peasant masses; to conduct surveys and studies to gain a genuine understanding of the grain crop growing area and disaster situations in order to understand the grain output situation and the ultimate implementation of policies; to help production teams do a good job of collective grain distribution and grain ration distribution, and to consolidate and increase collective grain reserves in accordance with the principle of looking after the interests of the state, the collectives, and individuals; to make suggestions about current year grain requisition procurement quotas on the basis of the production situation for the consideration of leading organizations; to mobilize the peasant masses to dry and winnow the grain to be sold to the state, carrying forward the glorious tradition of selling good grain to the state; to keep thoroughly informed about grain production and needs in all kinds of grain-short production teams and disaster-stricken production teams, making recommendations to the state about the planning of monopoly grain sale quotas; and to collect, compile and accumulate basic data regularly about rural grain production, retention, purchases, sales, and distribution.

Establishment of the rural grain keeper system formed a foundation for the attendant establishment of a rural grain data collection system that required that the more than 2,300 counties, municipalities and banners throughout the country annually forward "Cards on

Grain Production, Purchases, and Sales," (abbreviated to "Cards"). These cards were to be printed and distributed centrally by central government departments in charge, and were to be centrally collated and compiled. The main things the "Cards" covered were as follows: Basic rural circumstances, grain output, requisition grain procurement, excess procurement, amount of grain purchased at negotiated prices, amount of grain allocated and transferred, and amount of grain in the village. After processing, the "Cards" from the more than 2,300 counties, municipalities and banners could provide reliable data for different types of areas such as commodity grain-base counties, low output grain-deficit counties, counties contributing different amounts of grain, and major cash crop growing counties, showing the status of their grain production, purchases, sales, and distribution. This data provided important economic information for the use of planning, agricultural, and commercial departments in the formulation and readjustment of pertinent policies.

### Section III. Grain Work During 2 Years of Uncertainty

#### *I. Continuing Difficulties in Grain Distribution*

Victory in smashing the Jiang Qing counterrevolutionary clique in October 1976 rescued the CPC from dire peril, rescued the revolution, and enabled China to enter a new era of historical development. People of all nationalities throughout the country conducted all kinds of revolutionary and construction work with a feeling of jubilation. Nevertheless, difficulties in grain distribution continued at this time. From 1976 through 1978, the country's gross output of grain increased by an average 2.4 percent annually, which was lower than the 3.5 percent average annual increase during the Fourth 5-Year Plan. In per capita terms, grain output increased 6 jin annually, 2 jin less than during the Fourth 5-Year Plan. During this period, state requisition grain procurement as a percentage of output declined year by year, from 20.3 percent in 1976 to 19.9 percent in 1977, to 18.5 percent in 1978 for a three year 19.6 percent average. This was 1.2 percent lower than the average for the Fourth 5-Year Plan period. Each member of the agricultural population provided an average of 96 jin of commodity grain per year to the state (requisition procurement minus resales to rural villages). This was 11 jin less than during the Fourth 5-Year Plan period for a 10.3 percent decline. Meanwhile, the volume of grain sales continued to climb, increasing from 98 billion jin to 106 billion jin in an 8.2 percent increase. The imbalance between the country's grain receipts and expenditures was becoming more serious. The state confronted a sea of difficulties in grain allocation and transfer. Seventeen of the country's provinces, autonomous regions, and municipalities under direct central government jurisdiction needed grain shipments averaging 14.1 billion jin annually. This represented an increase by four in the number of provinces, autonomous regions, and municipalities under direct central government jurisdiction needing shipments, and a 4 billion jin increase in the amount of grain shipped to them in comparison with the

Fourth 5-Year Plan period. Eleven provinces and autonomous region shipped an annual average of 6.6 billion jin of grain. This was four fewer provinces and autonomous regions than during the Fourth 5-Year Plan, and 2.7 billion jin less grain. Under these circumstances, there was no choice but to continue to increase grain imports. During 1977 and 1978, 33.825 billion jin of grain was imported, and 7.246 billion jin of grain exported for a net importation of 26.579 billion jin of grain. All of it was used to make up the continuing shortfall between domestic receipts and expenditures, which required the continued tapping of the country's reserve grain for steady depletion of the the amount of grain in storage.

During this period the conflict between supply and demand for certain kinds of grain became sharp, coinciding with a conflict between supply and demand in the amount of grain. State supply of grain meant that cities and towns, and industrial and mining areas generally had to eat whatever was produced, and eat whatever was allocated. In the supply of specific kinds of grain, state-owned grain businesses followed the principle of filling requirements insofar as capabilities permitted, doing all possible to insure that the residents of cities, and industrial and mining areas got a certain proportion of fine grain. After 1975, shipments of rice from the major paddy growing areas declined, falling from the previous approximately 6.5 billion jin per year to approximately 5 billion jin. This resulted in an extreme shortage of rice in some cities. In order to effect a balance between the domestic supply and demand for rice, in September 1977 Beijing and Tianjin reduced from 30 to 20 percent the proportion of rice supplied in the resident's grain ration. Shanghai, which had always supplied nothing but rice as a ration, was also forced to supply 50 percent wheat flour to messhalls for staff members and workers in public agencies and enterprises. The city also mobilized the residents to buy wheat flour as 10 percent of their ration in order to conserve rice. For a time, most cities in north China were able to insure supply of rice only for special needs. No rice was supplied to residents, except on holidays when a special allowance was made. In major cities in south China where mostly rice was eaten such as Wuhan, Chongqing, Chengdu, Kunming, and Guiyang, a certain amount of wheat flour and corn was also provided as a substitute for the rice ration. Rice sales as a percentage of total grain sales nationwide fell from 49.6 percent in 1957 to 34.7 percent in 1977.

The inability of state-owned grain businesses to supply sufficient rice resulted primarily from the low price of paddy, which resulted, in turn, in paddy producing area peasants decreasing the amount of rice sold to the state. Additionally, the state had to get hold of a certain amount of premium rice (mostly short grain rice) for export that it could exchange for imports of greater amounts of wheat and corn to make up for the country's shortfall between grain receipts and expenditures. This was the nub of the conflict between supply and demand for rice at that time.

During this period, the area planted to soybeans, glutinous rice, mung beans, and red beans also decreased because of relatively low prices, causing a decline in output. The amount of state procurement declined even more causing a shortage of supply. In some large and medium size cities, it was also sometimes difficult to insure supplies of the foregoing kinds of grain needed by food and nonstaple food industries. They had to be imported from the international market in order to meet urgent domestic market needs.

In short, grain purchase and sales work during this period confronted both a conflict between the amount of supply and demand, and conflict between the supply and demand for different kinds of grain, which were overlapping and presented too many problems to cope with.

## *II. Measures Taken for Close Attention to Grain Work and Control of Grain Sales*

Faced with a decline in grain purchases and a shortage of supply, the CPC Central Committee and the State Council issued documents emphasizing close attention to grain work and strict control of grain sales. On 5 October 1977, the State Council issued "Circular Notice on Close Attention to Current Grain Work," (abbreviated to "Circular Notice"), which reiterated the "need to bend all efforts to buy more grain while adhering to the principle of not overbuying. In the distribution of grain, the interests of the state, collectives and individuals are to be taken into consideration, areas increasing production being required to increase sales, sales in serious disaster areas being suitably reduced or waived. Production team withholdings of grain for other uses are to be predicated on making sure that state requisition procurement and excess procurement quotas are fulfilled, that sufficient seed grain and livestock feed grain is retained, and that the livelihood of commune members is provided for, actions according with capabilities. Deception, the withholding of excess portions, and indiscriminate withholdings and uses of grain are to be resolutely corrected. State-owned farms are to actively fulfill their state requisition quotas. The May 7 Cadre Schools and farms of official organizations, military units, enterprises and institutions are to be sure to sell their surplus grain to the state." The "Circular Notice" also called for greater control over grain markets, rural grain markets being required to close entirely during the requisition procurement period. Should some provinces and autonomous regions decide to open them following requisition procurement, they were to manage them closely and control them strictly.

In October 1977, Li Xiannian made an incisive analysis of the reasons for the fall off in requisition procurement of grain. He said that the amount of grain withholdings by collectives had greatly increased in recent years; state requisition procurement decreased, and commune members' rations also decreased. In 1973, collectives withheld 94 billion jin of grain, the amount reaching more than 114 billion jin in 1976, an increase of more than 20 billion jin. Withholdings of seed grain increased 4.2

billion jin, but no increase occurred in the area sown. Withholdings for livestock feed increased 9.2 billion jin, yet there was no meat to be found. Withholdings of grain for production team reserves were 400 million jin less in 1976 than in 1973. Withholdings of grain for other purposes increased by 7.1 billion jin reaching 20 billion jin. More grain was needed for farmland capital construction. However, even 100 million laborers working for 3 months, each one receiving an additional 1 jin per day would require only 10 billion jin of grain. Where did the other 100 billion jin go? Li Xiannian continued, saying, "I think that squandering of grain, eating more, keeping more, and 'cooperative' deals wasted quite a bit of grain." This was a major reason for the reduced requisition procurement of grain at that time. Doing a good job in purchasing and sales work required doing a good job in rural grain distribution first.

The "Circular Notice" called for "the need to resolutely curtail irrational grain sales. It will be necessary to continue to exercise greater control over labor and households, strictly control increases in the number of staff members and workers, and the non-agricultural population, take stock of the use of labor outside plan, cutback on the number of civilian laborers working on public projects year round, and mobilize city and town personnel lacking household registration to return to production in the countryside. It is necessary to restructure monopoly grain sales, plugging loopholes." "Grain provided laborers on public projects is to be conscientiously inventoried, senseless projects canceled, and overly high standards for the issuance of such grain reduced. Active efforts are to be made to get industries to save grain or use grain substitutes. After the autumn grain harvest, rural sales must be reduced. No grain should be sold other than the amounts that national policy requires be supplied. The scope of award sales of grain for the purchase of agricultural byproducts is not to be enlarged or standards raised. Additionally greater control should be exercised to prevent false reporting, and fraudulent applications and claims."

"Report on the National Grain Conference" ("The Report," for short) from the Ministry of Commerce Leading Party Group to the CPC Central Committee and the State Council on 9 November 1977 called for "all departments to work with one heart and one mind under the unified leadership of CPC committees to give firm attention to grain." "The Report" also said that "Many years of practice have shown that when when monopoly sales work is relaxed a little, several billion jin of grain disappear. Only very, very close attention can save it." The CPC Central Committee approved "The Report" from the Ministry of Commerce Leading Party Group, forwarding it to all jurisdictions for conscientious implementation on 18 November 1977.

During this period, the Ministry of Public Security drew up "Regulations on the Handling of Household Transfers," ("Regulations," for short) in view of the need for a

level of development of agricultural production commensurate with the increase in the city and town population. On 8 November 1977, the State Council ratified and forwarded these "Regulations" for enforcement in all jurisdictions. These "Regulations" had as their point of departure strict control of city and town population. They set forth the specific control principles for moving from rural areas to cities and towns, for converting from agricultural to nonagricultural status, and for moving from any city to Beijing, Tianjin, or Shanghai. Nevertheless, given the social atmosphere of the time, and a situation in which the Party spirit and Party discipline in the CPC had not yet made a fundamental turn for the better, they could not be properly enforced. Violations of the "Regulations," allowing people to "enter cities from the countryside, and to change from an agricultural to a non-agricultural status" was not effectively halted.<sup>5</sup> In some places, it continued very serious.

Despite repeated instructions from the CPC Central Committee and the State Council during this period that called upon all jurisdictions to control strictly award sales of grain in the purchase of agricultural byproducts, not to expand the scope of award sales arbitrarily, and not to raise award sale standards; nevertheless, in 1978 award sales of grain were still being made when purchasing 188 different kinds of agricultural byproducts, expenditures for award sales of grain never being brought under control.

### *III. Reasons for No Improvement in the Grain Situation*

Why was it that despite the end of the 10 years of turmoil, not only had the grain situation not improved, but rather that shortages continued. This was because the political and ideological turmoil that the "Great Cultural Revolution" created could not easily be eradicated within a short period of time. During this period, norms and struggle objectives set for the building of industrial production exceeded actual capabilities and were divorced from China's national circumstances. The capital construction front was characterized by large size and speed, impetuosity in forging ahead, and a surge in the number of people employed. Additionally, many of the large numbers of educated youths who had been sent up to the mountains and down to the countryside, and the population that had been sent to the countryside from the cities for a variety of reasons during the 10 years of turmoil returned to the cities following a change in policies, thereby causing a very rapid increase in the urban population. The nonagricultural population for whom the state provided rations increased by 6.37 million during 1977 and 1978 for a corresponding increase in the amount of grain that the state provided. Consequently the state was extremely hard put during this 2 years to balance the country's grain receipts and expenditures, and to even out grain surpluses and shortages among provinces and cities. Even though the CPC Central Committee called upon all jurisdictions to take a firm grip on grain, and even criticized failure to do so, results were miniscule. In addition, a substantial number of problems with grain policies and work were not

promptly solved. Examples were overly heavy requisition grain procurement from rural villages in some places; requisition procurement prices for grain seemed low relative to procurement prices of cash crops; a grain purchase and sale price inversion existed; commercial activity in grain was always stifled, and so on. In varying degrees, these reasons adversely affected improvement in the grain situation.

### **Footnotes**

1. Excerpted from the report from comrades Tan Zhenlin [6223 7201 2651] and Liao Luyan [1394 7627 6056] titled "Major Events, Problems, and Suggestions about Agricultural Production and Rural People's Communes" approved and forwarded by the CPC Central Committee on 7 December 1958.
2. Li Xiannian report to the CPC Central Committee and Mao Zedong on 30 July 1961.
3. The four workshops were oil workshops, flour workshops, grinding workshops, and beancurd workshops.
4. The price of some of the imported grain was the FOB price that did not include the cost of transportation.
5. When the rural population entered cities, their agricultural household registration was changed to city non-agricultural household registration.

### **Grain Payment Delinquency Analyzed**

40060747a Beijing JINGJI RIBAO in Chinese  
15 Sep 89 p 1

[Article by Correspondent Sun Yong 1327 0516: "Why Don't You Pay Us for the Grain You Eat? A Question Prompted by Delinquency in Payment for Grain"]

[Text] The people regard food as their heaven, but the number one problem concerning this heaven nowadays is delinquency in payment for grain.

At a conference devoted to settlement of delinquent grain bills recently convened in Beijing, a representative of a grain trade company referred to himself as a "aggrieved victim." Within a short year, his firm incredibly had come to owe as much as 1.3 billion yuan in delinquent grain bills and thus had to take out large bank loans, make huge interest payments, and also fell behind on 800 million yuan in tax payments. Jiangxi, by no means loaded with funds, is owed a full 100 million yuan by other provinces. And Jilin, traditionally known as a "big grain province," has yet to be paid for 265 million yuan worth of grain shipped to other localities since the fourth quarter of last year.

"Creditors" indignantly ask, "Why don't you pay us for the grain you eat."

Why, indeed? The simplest answer is "We're broke!"

Indeed, grain payment delinquency is inseparably linked to the general backdrop of tight money. Nevertheless,



bank credit statistics show that grain loans have climbed year after year. In Shanghai, China's largest city, which also faces a pressing problem with "eating," grain loans comprise approximately 40 percent of all commercial credit, a ratio that is by no means high. According to other statistics for the period up through June of this year, loans extended to grain enterprises have reached 74.5 billion yuan nationally. With bank funds extremely tight, we have done the best we can do to give priority to the funding needed for "eating."

Why does grain gobble up so much money? Here, we cannot overlook the increased funding necessitated by improved harvests. Nevertheless, with our agriculture still largely dependent on heaven, it is impossible to accurately predict the size of this year's harvest, and to meet the food needs of 1.1 billion people, grain reserves are being increased, with levels in some cities reaching the equivalent of a year's sales.

In money terms, stored grain represents a huge sum of funds. Even more serious, however, is the fact that, while grain procurement prices have risen in each recent year, we have been unable to increase sales prices very much, and the state has had to cover the huge shortfall resulting from this price reversal. In Wuhan, Hubei, residents pay 0.3 yuan for a kilogram of grain, whereas contract prices for paddy rice, plus various costs total at least 0.5 yuan a kilogram, so the state pays at least 0.2 yuan to subsidize the shortfall. Such subsidies are widespread and both take up more funds and increase price subsidies. Comrades from commercial departments report that in 1988 the state shelled out as much as 7 billion yuan to subsidize losses incurred in the grain trade.

Can the state sustain this high level of subsidization? Statistics show that in 1988 the state spent 31.68 billion yuan on various price subsidies, for an average annual rise of 39.8 percent over the 1978 level of 1.11 billion yuan. This rise greatly exceeded the annual increase of 8.2 percent in state revenues during the same period. Clearly, subsidies have become a great burden on the budget. Even more serious is the fact that declines in state enterprise earnings have reduced state revenues. During the first half of this year, profit remittance by industrial enterprises included in the state plan was down 4.284 billion yuan, or 41.4 percent, from the same period last year. Revenue reduction directly affects the state's ability to render subsidies. Statistics show that the state delayed payment of as much as 5-plus billion yuan in grain subsidies during the first half of this year. This fact demonstrates that price subsidies have outstripped budgetary capacity, a situation that can no longer continue.

It is easy to see that failure to resolve the problem of grain payment delinquency (and not just this problem) will certainly topple enterprises, banks, and ultimately even the state budget.

*How do we get out of this mess?*

Grain payment delinquency actually stems from a combination of contradictions. We stress that worthless

IOUs must not be used in grain procurement, yet, in fact, grain payment delinquency amounts to such practice in grain marketing operations. This involves the problems of grain procurement and sales prices, of fiscal responsibility contracting, and of the lack of coordination between bank and grain administrations.

Under pressure from mounting grain-trade-loss subsidies, a provincial capital once tried to create a "grain procurement fund" by requiring that enterprise employees consuming commodity grain pay 186 yuan a year (which amount in reality was to be paid by employers on employees' behalf). Though expecting to raise 120 million yuan, the city collected only 20 million. The reason for the shortfall was that some central enterprises refused to go along because, under the fiscal responsibility contract system, the program would have entailed a reduction in central revenues.

Some people have suggested that, in the absence of change in urban grain ration sales prices, we must as quickly as possible undisguise grain subsidies and institute one price for grain sales so as to reduce the subsidy burden and rationally plan grain reserves.

Other people have proposed that we stop having both agricultural and industrial-commercial banks handle grain funds and instead assign one bank to manage grain loans as a separate item.

I believe that there are a variety of ways with which to resolve the problem, none of which is perfect. However, since grain is a unique commodity, special measures are required to deal with it. Grain payment delinquency will get worse if we fail fundamentally to resolve the problem. We must not limit our efforts to a single appeal for payment collection per year, and we must not allow entities to persist in their failure to pay for the grain they eat.

### Increased Barley Output Needed

40060007d Beijing JINGJI CANKAO in Chinese  
28 Sep 89 p 2

[Summary] Over the past 10 years, China's beer industry has rapidly developed. Estimated beer output in 1989 is 7,500,000 tons, which will require 1,500,000 tons of barley; by the year 2000 beer output is expected to reach 10 million tons, which will require 2 million tons of barley. In the 1920's and 30's, the barley area in China was 100 million to 120 million mu, in the 1960's the barley area began to decline, and by the 1980's the barley area was 50 million mu. In 1989 the barley area is slightly over 30 million mu, which can provide only 900,000 tons of quality barley to the beer industry. Barley output has declined because the state no longer included barley in grain procurement tasks beginning in 1984, and abolished the award of fertilizer and diesel oil, thus peasant enthusiasm for production declined. Prices were irrational, a kilogram of barley was 0.20 yuan lower than wheat, so farmers planted wheat. To solve these problems, the barley area must be expanded, barley

should be planted on the 100 million mu of idle winter fields in the south and on the 200 million mu of saline and sandy areas in the north. Barley is an important industrial material, and should be included in grain procurement plans.

### Henan Grain Wholesale Center To Be Set Up

OW2610041989 Beijing XINHUA in English  
1555 GMT 25 Oct 89

[Text] Zhengzhou, October 25 (XINHUA)—A central grain wholesale center will open in Zhengzhou City, capital of Henan Province, according to an official of the provincial grain department.

The opening of the center, the first of its kind in China, is an important step by the state in grain trading using market regulation under the guidance of the planned economy, the official said.

The center will decide the class and quality of grain and open bargaining or bidding on the basis of equal competition. Cereals not clarified by the center should not be sold. The delivery point of goods under negotiation must be declared.

In the beginning, the center will only deal in wheat and include corn and soybean in the future.

The center will also set limits on the size of purchases in order to prevent sharp price fluctuations and an imbalance in supply and demand between different areas in China and domination by big companies. Contracts that exceed the quantity limit will be invalid.

Those who conduct business in the center must be approved by the Ministry of Commerce and have certificates issued by industrial and commercial departments. Traders at the center will include legal grain wholesale agents, farmers' grain sale and purchasing cooperatives, and big grain processing enterprises.

The center is scheduled to open by the end of this year.

### Henan Develops Device To Produce Bovine Serum

OW2610115689 Beijing XINHUA in English  
0903 GMT 26 Oct 89

[Text] Zhengzhou, October 26 (XINHUA)—A new device to produce bovine serum has just passed experts' appraisal in Zhengzhou, capital of central China's Henan Province, according to the newspaper, HENAN DAILY.

The 19 experts suggested that a bovine serum production center be set up in Henan, which has more oxen than any other region in China.

The serum extracted from calves contains amino acids, minerals and trace elements. It has many uses in medicine and bioengineering, and is commonly used in the production of vaccines and raw materials for anticancer drugs.

Previously, all the quality bovine serum used in scientific research was imported.

### Hunan Procurement Funds Increase

40060007a Changsha HUNAN RIBAO in Chinese  
3 Sep 89 p 2

[Summary] As of 20 August, procurement funds from the agricultural bank system in Hunan Province exceeded 3 billion yuan, an increase of 188 million yuan over the amount assigned in the government plan. Agricultural banks have reduced loans for fixed assets, and 83,560,000 yuan worth of commercial loans and loans for nonproductive purposes have been used to procure grain. In addition, agricultural banks have sent financial cadre to grain stations to ensure that grain funds are not used for any other purpose.

### Hunan Grain Procurement

40060003f Changsha HUNAN RIBAO in Chinese  
23 Sep 89 p 1

[Summary] As of 15 September, Hunan Province had put 3.1 billion kilograms of contracted grain in storage, an increase of 550 million kilograms over the same period in 1988, and fulfilled 93 percent of the task. In addition, Hunan procured 665 million kilograms of negotiated grain, an increase of 200 million kilograms over the same period in 1988.

### Shandong Cotton Procurement

40060007b Beijing JINGJI RIBAO in Chinese  
16 Oct 89 p 1

[Summary] As of 10 October, Shandong Province had procured 5,092,000 dan of ginned cotton.

### Qinghai Land Development

40060007c Xining QINGHAI RIBAO in Chinese  
13 Sep 89 p 1

[Summary] Qinghai Province has invested 29,515,000 yuan in 68 land development projects. According to preliminary statistics, 48,000 mu of newly developed land has been cultivated.

### Qinghai Grain, Oil Crop Procurement

40060003e Xining QINGHAI RIBAO in Chinese  
23 Sep 89 p 1

[Summary] As of 15 September, Qinghai Province had procured 8,710,000 kilograms of grain, and 230,000 kilograms of oil crops, a decline of 730,000 and 330,000 kilograms respectively from the same period in 1988.

**High-Yield Cotton Techniques Applied in Xinjiang**

OW1910051889 Beijing XINHUA in English  
0207 GMT 19 Oct 89

[Text] Urumqi, October 19 (XINHUA)—Agronomists have developed techniques to ensure high yields of cotton in the Xinjiang Uygur Autonomous Region.

The outputs of upland cotton and island cotton have surpassed 750 kg and 1,875 kg per ha, respectively, in the Tarim River Valley, according to the Chinese Cotton Society and the Xinjiang Cotton Society.

After surveys made by the two societies in September and October this year, the experts announced that 13 ha of cotton fields in eight counties have reached the high-yield goal. The highest yield of upland cotton was

achieved in the Maigaiti reclamation area, with an average output of 2,550 kg per ha.

Located on the southern slopes of the Tianshan Range, the 19,800 sq km Tarim River Valley is China's most important long-staple cotton producer. The local peasants of different nationalities have readjusted the structures of agriculture and developed cotton production remarkably.

Jiang Guozhu, a cotton expert from the Chinese Academy of Agricultural Sciences, said that with the increasing population and decreasing farmland, China's cotton production should stress increase of output. If the per-unit yield can be increased to that of the Maigaiti reclamation area, the national cotton output will double, even if the current cotton area remains the same.

## NORTH REGION

### Shanxi Issues Provisional Regulations on Public Order

40050656 Taiyuan SHANXI RIBAO in Chinese  
16 Jul 89 p 1

[Article by SHANXI RIBAO correspondent Li Jianrong 2621 1696 2837 and reporter Wang Jingping 3769 2529 1627: "The Shanxi CPC Committee and the Provincial Government Convened a Cross-Province Telephone Conference on Implementing the Shanxi Provisional Regulations on Preserving Public Order; During the Discussion Shanxi Party Deputy Secretary and Governor Wang Senhao 3769 2773 3185 Demanded That All Social Forces Be Mobilized To Preserve Social Order"]

[Text] On 15 July the Shanxi CPC Committee and the provincial government convened an afternoon telephone conference to discuss issues involved in implementing, provincewide, the Shanxi Provisional Regulations on Preserving Public Order.

Bai Qingcai [4101 3237 2088], Standing Committee member and vice governor, chaired the meeting. Wang Senhao [3769 2773 3185], party deputy secretary and governor, addressed the conference, pointing out that the provincial government issued the Shanxi Provisional Regulations on Preserving Public Order on 26 June. These are administrative standards formed out of our experiences in crowd control over the past year, and as such they constitute Shanxi's first provincially mandated rules on public security management. They promote intensification and long-term development in crowd control efforts in Shanxi and act as a strong guarantee that they will be standardized and systematized. This move is an important measure both in terms of economic and legal construction and in terms of achieving long-term public order in Shanxi.

During this discussion Governor Wang demanded the following things: 1) We must enhance propaganda and education to improve understanding of public security issues and establish in everyone a vivid consciousness of individual responsibility for safeguarding social order. We must see to it that society as a whole develops the healthy trend of socialist advocacy and strikes back against every kind of unlawful, criminal activity. 2) We must mobilize all social forces to ensure public order. When assessing party and government leadership, sectors concerned with organization and human affairs must make the success or failure of public security measures a major factor in that assessment. As they augment their efforts on behalf of social order, public security organs must do their best to provide advice and assistance; coordinate, supervise, and urge compliance; organize leadership roles; and set an example. 3) We must constantly consolidate, replenish, expand, and improve our crowd-control contingent and make sure that leadership, organization, institutions, rewards, and efforts are all practicable. 4) To implement this public

security plan and achieve its goals, a minimum of one-third of all counties and districts in each prefecture and municipality, and one-third of all townships and residential neighborhoods in each county and district must have attained conformity with the standards outlined in the Provisional Regulations by the end of 1989.

Zhang Jianmin [1728 0256 3046], vice chairman of the Shanxi Provincial Party Congress, and Vice Governor Wu Dacai [0702 6671 2088], participated in the conference.

### Shanxi People's Congress Acts To Preserve Social Stability

40050656b Taiyuan SHANXI RIBAO in Chinese  
20 Jul 89 p 1

[Unattributed article: "The Standing Committee of the Shanxi Provincial People's Congress Approves a Resolution on the Prevention of Turmoil and Preservation of Social Stability; (The Resolution Was Approved on 19 July 1989, at the 10th Session of the Standing Committee of the Seventh Shanxi Provincial People's Congress)"]

[Text] The 10th Session of the Standing Committee of the Seventh Shanxi Provincial People's Congress heard and considered a Report on the State of Turmoil Prevention and Public Security Preservation in the Capital of Shanxi, which was presented by Vice Governor Wu Dacai [0702 6671 2088] on behalf of the provincial people's government. The resolution was approved. The consensus at this session was that the turmoil and counterrevolutionary rebellion spread to Shanxi and gave rise to political turmoil in the capital city of Taiyuan. Under the leadership of the Shanxi Provincial CPC Committee, the Shanxi provincial people's government firmly endorsed the "26 April" editorial and conscientiously carried out the instructions and commands of the CPC Central Committee and the State Council to take a firm, clear stand in curbing turmoil. It upheld the correct direction in public opinion and worked patiently and meticulously to ferret out and use prompt, legal measures to retaliate against bad elements who were stirring up trouble, and to smash the burners and looters. In addition, it supported the effort to simultaneously curb turmoil and promote economic growth, thus ensuring normal progress in agricultural and industrial production. Shanxi's public security cadres and military police force are devoted to the people and offer themselves unselfishly, and the vast masses of workers, peasants, and intellectuals throughout the province hold fast to their positions, take the interests of the whole into account, and demonstrate a high level of political consciousness. The quelling of counterrevolutionary disturbances in Beijing had a calming effect on the situation in Taiyuan and throughout Shanxi. The Standing Committee of the provincial People's Congress expressed satisfaction and firm support for this action.

The Standing Committee approved of the provincial people's government's determined struggle and thorough victory in quelling the disturbances. It raised several compelling current issues and strongly advocated acting in the spirit of both Comrade Deng Xiaoping's discussion and that of the 4th Plenary Session of the 13th CPC Central Committee. That is, we must work toward a common understanding among cadres and the masses, fully mobilize and rely upon the masses, ferret out and put down the serious criminal elements that foment upheaval, and distinguish strictly between these two different things so that we may correctly handle the conflict between them. We must launch efforts to educate cadres and people in upholding the four basic principles, in legal issues, and in the lessons of bitter struggle, while opposing bourgeois liberalization. We need to enhance political and legal work and

strengthen the power of the people's democratic dictatorship. We must also take firm control of every aspect of reform and the process of lifting economic restrictions, continue the process of administrative reorganization, stabilize commodity prices, and promote sustained, steady, coordinated economic development. Beginning with leading bodies and leading cadres, we must work conscientiously to bring about honest and clean political development. We must clear away every kind of interference, resolutely eliminate corruption, punish "official profiteering," and, in particular, make a thorough investigation of problems in the coal, steel, construction materials, and capital construction industries: We must concentrate and make breakthroughs in the major and most critical cases. The major and most critical cases must be broadcast publicly: We must report the real facts to the people.

### KMT Poll Reveals Citizens' Concerns

90ON0091B Taipei TZULI WANPAO in Chinese  
16 Sep 89 p 6

[By P'eng Wei 1756 1218]

[Text] A public opinion poll by the Taipei municipal KMT [Kuomintang] headquarters on political views pertaining to the yearend election shows that almost 90 percent of the citizens living in Taipei are thoroughly fed up with having to confront each day a number of problems such as those caused by traffic, the environment, and public order, and they look forward to improvements being made. In addition, more than 50 percent of the men and women polled approve of government action prohibiting the return to Taiwan of people involved with Taiwan independence.

This survey points out to the KMT candidates in the yearend election that an important basis for political views is the number of insulting conditions still existing in Taipei which deeply disturb the residents. Since time is too short to obtain any improvement in the countless problems with which residents must cope each day, the KMT is forced to resort to public opinion polls that reflect the underlying concerns of the people in general.

According to the data, the problems that residents find most troubling are, in priority order, traffic jams, excessive housing costs, decline in public order, environmental pollution, and excessive commodity prices. Another survey of hindrances to quality of life listed traffic jams, environmental pollution, decline in public order, price of commodities, and high housing costs—in that order. That traffic problems occupy first place in both surveys shows that city residents have almost reached the end of their endurance in putting up with these constant traffic problems.

In addition, 50 percent of the men and women interviewed were guarded in their attitude about people involved in Taiwan independence and approved of the government action, for reasons of state security, prohibiting these people who are abroad from returning to Taiwan.

### Can Taiwan Outlaw Underground Investment Companies?

40060709A Hong Kong CHING-CHI TAO-PAO in Chinese No 29, 27 Jul 89 p 29

[Article by Zhang Yi 4545 1837: "Can Taiwan Suppress Underground Investment Companies?"]

[Text] Taiwan's revised Bank Law has recently been approved by the Legislative Yuan in three readings. President Lee Teng-hui has signed and promulgated the law on the 10th of this month, and it came into force on the 19th. The amended Bank Law will from now on be a basis for the suppression of illegal underground investment companies.

### Developing in a Time of Excessively Abundant Capital Funds

In the last few years, underground investment companies have sprouted in Taiwan as mushrooms after spring rain. Since the first one was established 7 years ago, their numbers have by now risen to 176, the number of their investors reached 1.5 million, and the investments have reached New Taiwan (NT) \$300 billion.

The reason for this vigorous development of investment companies is mainly the rapid growth of Taiwan's economy in recent years since the 1980's, particularly in the last few years, and the excessive amount of floating capital in the hands of the general public. It is said that up to the end of February of this year, floating capital on Taiwan amounted to over NT\$4,200 billion (about HK\$1,200 billion). On the other hand, however, there are insufficient investment outlets. Apart from large amounts of floating capital pouring into the share market and into the real estate market, it has nowhere to go. Besides, the whole society is showing a widespread propensity for profiteering and a greed for profits, while the Taiwan banking system itself offers only low interests for deposits, so that underground investment companies are able to absorb much of the floating capital by offering high interest rates. We are told that their usual terms are that a deposit of NT\$150,000 will earn NT\$5,000 to 6,000 per month, i.e. interest as high as 40 percent per year. This kind of abundant yield is, of course, exciting news for the small investor, and this in turn has encouraged the growth of underground investment companies. These investment companies are registered under deceptive signboards, for instance, under such facile designations as trading corporations, travel agencies, and so on.

The underground investment companies of the 1980's are quite different from the underground money market of the past, or the earlier old-style Chinese private banks, called "qian zhuang." The existence of the various kinds of traditional underground banks of the past depended on a capital-short situation, while the present underground investment companies have developed through a situation of excessively abundant capital funds. Because of this situation, underground investment companies go beyond the scope of monetary and general production activities, using their huge capital funds to also start a variety of diversified operations, extending to such fields as handling shares, dealing in futures, in real estate, in beverages and foodstuffs, running department stores, investing in horse racing, and so on. In short, they zero in on anything that can yield a profit, and furthermore, even extend their activities outside Taiwan to overseas.

### Suppression Had Been Continuous

Taiwan's authorities have for a long time had the intention of suppressing this line of business, which is now attracting more and more attention, but investment companies are classified as a category somewhere between commercial enterprises and financial enterprises, and it appears as if current law provides no basis

to strictly enforce their prohibition. The investment companies were able to survive and flourish, while becoming the source of an inherent socioeconomic problem.

Recently, voices have again been raised for the prohibition of underground investment companies. A few days ago, several KMT senators have noisily criticized the authorities for remaining indifferent to the problem of the underground investment companies for such a long time and for allowing it to become an inherent social problem. Scholars of the "National Development Seminar" have also expressed the opinion that the rampancy of Taiwan's underground investment company has become unbearable and constitutes a significant adverse influence on the normal development of the economy. Lee Teng-hui has also on occasions told the scholars of the "National Development Seminar" that the occurrence of the underground investment company problem has a bearing on the deterioration of Taiwan's moral fiber. Taiwan's minister of finance, Shirley Kuo has clearly expressed her opinion on how the problem of the underground investment companies is to be dealt with, namely that the underground investment companies violate the provisions of the Bank Law, in that they illegally absorb floating capital funds, that the matter brooks no further indifference, and that their suppression has in fact never been interrupted. The supreme procurator's office, the Bureau of Investigation, and the Ministry of Economic Affairs are equally engaged in these efforts at suppression.

Even though Taiwan authorities emphasize that suppression of underground investment companies has been going on uninterruptedly, no effective measures are visible, and there can be absolutely no claims of success. There is, furthermore, much shifting and shirking of responsibility on the part of the executive branches of the government in this matter of illegal financial activities, which are allowed to go on unobstructed, a situation where even banks in which the authorities have controlling shares continue to grant loans to underground investment companies.

In fact, there are other reasons for the tardiness of the Taiwan authorities to take action against the investment companies. It is said that some of the investors in these investment companies are important personalities of party and government. Over half of all military personnel, government employees, and teachers, in office and in retirement, as well as their family members support the companies, that even some senators openly serve in these companies, and that some shady middlemen are employed by the companies. If suppressive action were taken against them, this would cause a serious financial storm, because of all these broad ramifications. Pressure is being exercised by various interest groups, including certain representatives of the will of the people, while many investing personalities are linked with these underground investment companies and threaten that they will take matters into their own hands, demonstrate in the streets, and furthermore create a powerful opposition against the ruling party in the next election at the end of the year. All this is unavoidably heavy pressure on the authorities.

However, there is the saying, "one ant hole may cause the collapse of a thousand-mile-long dyke." If no prompt action is taken against the underground investment companies, it may lead to frightening consequences. Taiwan's media also believe that strict suppression of the underground investment companies based on the Bank Law, as recently amended, would now already be an overdue action, but something that has to be done now rather than never.

#### From "Forcible Suppression" to "Legal Encouragement"

One of the crucial points in the present amendment of the Bank Law is without doubt the restraint on underground investment companies, but indications are that this restraint will not of a fervent nature, but will be very mild, leaving some latitude to the underground investment companies and will open a legal sluice gate for them.

It is reported that Prime Minister Li Huan [2621 2255], during an appointment with someone in charge of financial and economic affairs, gave orders that if the Ministry of Justice will launch suppression of the underground investment companies, the Ministry of Finance and the Ministry of Economic Affairs must be cautious in their pronouncements, their wording must not be too provocative, and that they should also study the possibility of legalization. A responsible official of the Ministry of Economic Affairs has proposed three demands in case of legalization of the underground investment companies. These are: 1) their financial reports shall be open; 2) their assets must exceed their indebtedness; and 3) distributions shall be effected only if their annual settlements show profits. The said official emphasized that if three demands cannot be fulfilled, especially if financial reports are not "clear" and "open," it will not be possible to get them legalized. Actually, it will hardly be possible for the underground investment companies to agree to these conditions. However, Taiwan's authorities intend to use lenient measures in order to put the local financial trade on the right track, and that this will have beneficial effects on economic developments.

The change of attitude on the part of Taiwan authorities from one of "forcible suppression" to one of "legal encouragement" will be taken as an encouragement by the underground investment companies. They believe that the attitude of the authorities toward underground investment companies has become much more enlightened than in the past, so that those in this trade will have some backing and rules to go by, and they are indeed making preparations to work energetically in the direction pointed out by the authorities.

As to the question whether the Executive Yuan and the Ministries of Economic Affairs and Finance will decide to suppress the underground investment companies, and whether the amended Bank Law will provide a basis for the suppression of underground investment companies, people are just waiting to see what will happen.



### Meddling in Hong Kong Affairs Criticized

40050673 Hong Kong CHENG MING  
[CONTENDING] in Chinese No 142, 1 Aug 89 p 3

[Editorial: "River Water Is Intruding on Well Water; What Is To Be Done?"]

[Text] On the one hand, they shout that "well water must not intrude on river water [no encroachments of capitalist ways on the socialism of China," but, on the other hand, they will allow "river water to intrude on well water." This is how Chinese Communist action again displays its real arbitrariness and the fraud of the "one country, two systems" concept.

When Jiang Zemin, secretary general of the CPC, met with An Tzu-chieh [1344 1311 0094] and others on 11 July, he said: "The saying has it that 'well water must not intrude on river water'; I am not going to introduce socialism in Hong Kong, Macao, and Taiwan, and you must also not bring any capitalist ideas into the interior of China." While these words were still ringing in our ears, the RENMIN RIBAO published an article on 21 July, signed Ai Chung [5337 0022], entitled "Wrecking the 'One Country, Two Systems' Concept Will Not Be Tolerated," and to one's surprise, and utterly unreasonably, the article criticizes, though not by name, Li Chu-ming [2621 2691 6900] and Szu-tu Hua [0674 1778 5478], two fighters for democracy, and attacks by name the "Support Democracy Association" of Hong Kong for supporting the democratic movement on the China mainland. This is really a case of "river water intruding on well water."

However, if people in Hong Kong support the democratic movement on the mainland, they act completely within the general principles of law. As to the rational side of the matter, the democratic movement is beneficial for the democratization of the country and is helpful toward the country's economic, political, cultural, artistic, and educational development, as it is also greatly beneficial for Hong Kong's prospects. By rallying together in support of this movement, and by indignantly condemning the fascist outrage of cruelly murdering patriotic students and citizens, the Chinese of Hong Kong have displayed warm and sincere patriotism and a high sense of historical mission. As to the legal side of the matter, support of the democratic movement does not in the least contravene the laws of Hong Kong, which people in Hong Kong must observe. According to the laws of Hong Kong, the people of Hong Kong are completely within their rights if they use peaceful means to demonstrate their support for the democratic movement on the mainland. Thus, it is also absolutely legal to demand the ouster of Li Peng and to voice opposition to the dictatorship of the communist party. All the more in conformity with general emotions, and equally nothing to be censured, is condemnation of the outrageous armed and bloody suppression of the people.

However, it is exactly the legitimate, rational, and sympathetic patriotic action of the people of Hong Kong that has

the Chinese Communist mouthpieces gnash their teeth in hatred, fly into a rage, and make unwarranted charges. Why?

Because the Chinese Communist criteria of judgment for what is right and what is wrong are completely different from those of the people of Hong Kong. The people of Hong Kong consider the student movement and the democratic movement righteous causes, while the communist party views them as evil "disturbances" and "rebellion." The viewpoints are so different because the people of Hong Kong live in a civilized free world, understand the value of freedom, and fervently long for a democratic China, where a billion people may live in freedom and happiness, a China that will also ensure a free and democratic Hong Kong after 1997. The rulers of Communist China, however, like all feudal tyrants, cannot tolerate that the people under their rule enjoy democracy and freedom and have the right to engage in democratic movements, even though these rights are granted by the Constitution.

Moreover, another reason is that the Chinese Communist mouthpieces want to scare the people of Hong Kong. First they want to threaten the fighters for democracy, with the intention of isolating the democratic forces on the mainland, and then they want to open up a breach for interference in Hong Kong affairs and for control of the people of Hong Kong even before 1997.

This interference by the Chinese Communists starts out from the viewpoint of an antidemocratic "socialism" and feudalism, and it indicates that the Chinese Communists will not proceed according to Jiang Zemin's speech, namely, that they "will not introduce socialism in Hong Kong, Macao, and Taiwan." It is exactly the opposite: In the "storm over the book" affair, in their opposition to direct elections in 1988, in forcing on the people things they don't want, in the question of the Basic Law, and so forth, it has always been a matter of "socialist," that is, feudalistic, interference in the capitalist politics and life of Hong Kong; it was indeed "river water intruding on well water."

The article in the RENMIN RIBAO, which is like a supporting beam, also nakedly displays the Chinese Communists' wicked ambition of controlling Hong Kong even before 1997. The article refers to the provisions of Articles 21 and 23 of the draft Basic Law (which is merely a draft) and wants the people of Hong Kong today (8 years before 1997) to conduct their affairs according to law (the law of the draft Basic Law), which in many ways restricts the freedom of the people of Hong Kong. This is absolutely preposterous! However, it reveals the hidden evil intentions of the Chinese Communists and their utter lack of good faith!

Another particularly preposterous statement is: "Development of a prosperous capitalist Hong Kong is possible only under the large tree of the socialist People's Republic of China." This phrase must be interpreted only in the following way: Since the people of Hong Kong have seen the great tree of socialism wither, and therefore persist in favoring capitalism and pursuing the capitalist way, there

will "develop a prosperous capitalist Hong Kong." Could there possibly be any other more appropriate interpretation? Of course, old "leftist" bureaucrats will certainly not agree. Between the lines of the phrase is hidden a completely illogical logic: A prosperous Hong Kong is possible only by having the communist party. It is the same falsehood as in the lyrics: "Without the communist party, there would be no New China." But this reveals the true evil motivations. All their talk of "one country, two systems," "no change for the next 50 years," and "no introduction of socialism to Hong Kong, Macao, and Taiwan" is nothing but a pack of lies to deceive people. What can be truly believed is that "river water will continuously intrude on well water," and the more it intrudes, the more malicious, the more frequent, and the more unscrupulous it will become.

Faced with this ominous and more than grim situation, the people of Hong Kong must preserve a sober mind and, without fear, continue to work hard for democratization in China and in Hong Kong. Fear and surrender will amount to self-destruction. Presently, the most forceful voice in the world is the voice for democracy and freedom. Many countries and peoples (including Hungary and Poland among the East European countries) are standing together with the Chinese people. A powerful cohesive strength of the Chinese people over the whole world is being engendered, and a great unity of great momentum is bound to arise, to strive for democratization of China. There are limitless propitious prospects, and we must do our part toward the great project of transforming and creating history!

22161  
166

NTIS  
ATTN: PROCESS 103  
5285 PORT ROYAL RD  
SPRINGFIELD, VA

22161

This is a U.S. Govt  
policies, views, or at  
cite FBIS or JPRS provided they do so in a manner clearly identifying them as the  
secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, economic, military, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available source; it should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed, with personal and place names rendered in accordance with FBIS transliteration style.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.